Optimizing Foreign Direct Investment: Attracting High-Technology Multinational Corporations in the Arab Republic of Egypt

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Abstract

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The purpose of this thesis is to provide policy recommendations for the Arab Republic of Egypt. To justify these policy recommendations, this work surveys theoretical literature, examines data about the contemporary Egyptian economy, and analyzes empirical cases. The main findings of this work relate to Egypt's mega-projects, which provide a unique opportunity for Egypt to maximize benefits from high-technology Foreign Direct Investment; policies outlined in this work are intended to aid Egypt attract, retain, and optimize Foreign Direct Investment of this type.

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LIST OF ABBREVIATIONS

AICEP	Agência para o Investimento e Comércio Externo de Portugal
ALMP	Active Labour Market Programmes
CAPMAS	Egypt's Central Agency for Public Mobilization and Statistics
CBE	The Central Bank of Egypt
CFI	Cooperate Finance Institute
CPI	Corruption Perception Index
CZK	Czech Koruna (Currency)
ECA	Egyptian Competition Authority
ECGD	Export Credit Guarantee Department
EFF	Extended Fund Facility
EG	Economic Growth
EGP	Egyptian Pound (Currency)
EU	European Union
FY	Fiscal Year
GDP	Gross-Domestic-Product
GII	Government Integrity Index
GNP	Gross-National-Product
GoE	Government of Egypt
IB	International Business
ICS	Investment Climate Statements
ICSID	International Centre for Settlement of Investment Disputes
IE	Income Inequality
IEF	Heritage Foundation's Index of Economic Freedom
IFC	The International Finance Corporation
ILO	International Labour Office
IMF	International Monetary Fund
IPR	Intellectual Property Rights
JV	Joint Venture
LCR	Local-Content Requirements
LPI	Logistics Performance Index
M&A	Mergers and acquisitions
MIGA	Multilateral Investment Guarantee Agency
MENA	Middle East and North Africa
MEFP	Memorandum of Economic and Financial Policies
MNC	Multinational Corporation
MNE	Multinational Entity
MSSD	Most Similar Systems Design
OECD	The Organisation for Economic Co-operation and Development
OPIC	Overseas Private Investment Corporation
PCI	Policy coordination instrument
R&D	Research and Development
RRI	FDI Regulatory Restrictiveness Index
SBA	Stand-by Arrangement
SCZone	The Suez Canal Economic zone
SOE	State-Owned Enterprises
TI	Transparency International
TNC	Transnational Corporation
TRIMS	Agreement on Trade-Related Investment Measures
UNCTAD	United Nations Conference on Trade and Development
UOHS	Czech Republic's Office for the Protection of Competition
USTR	United States' Trade Representative's
VAT	Value-Added Tax
WTO	World Trade Organization
EPZ	Export Processing Zones

INTRODUCTION

At the beginning of the century, economic growth in Egypt was so robust that observers referred to the country as 'the Tiger on the Nile.' However, political unrest—and the period leading up to it— in 2010 stalled growth and sent the economy into a depression, from which Egypt is still recovering. In 2016, Egypt signed on to a restructuring loan with the International Monetary Fund (IMF), which required the country to float its currency, prioritize fiscal consolidation, increase taxes, and implement deep structural reforms. Several macroeconomic indicators have trended positively since those austerity measures, including nominal GDP growth, deficit reduction, and reduced inflation; yet Egypt's unemployment rate has been slow to decline.

As Egypt's economy continues to ameliorate, the Government of Egypt (GoE) has announced a series of high-profile and high-dollar mega-projects. The public goal of these projects is to encourage economic recovery through public and private investments. The portfolio of mega-projects planned and underway provide a unique opportunity for Egypt to attract foreign capital through Foreign Direct Investment (FDI). However, foreign firms have not turned-out to contract these projects as Egypt had expected.

This paper explores potential causes for the depression of FDI in Egypt and offers policy recommendations to attract, retain, and optimize FDI from high-technology firms relevant to Egypt's mega-projects. The recommendations are informed by theory, data, and empirical analysis.

CHAPTER ONE: LITERATURE REVIEW OF FDI THEORY

1.1 Definitions and Modes of Foreign Direct Investment

Foreign Direct Investment (FDI) primarily occurs when an enterprise of one country establishes a lasting interest in another host country by means of a greenfield investment, brownfield investment, or joint venture (JV) (Raff, Ryan, & Stähler, 2006). FDI comprises both the establishing transaction and all of the subsequent capital transactions between the foreign direct investor and the foreign direct investment enterprise (Duce & España, 2003; OECD BMD4, 2008).

The first mode, greenfield investments, requires the foreign direct investor, usually a multinational corporation (MNC) , to establish business operations in the host country by creating a new wholly-owned affiliate or asset (Moran, 2012; Görg, 2000)—an MNC is a firm that controls and manages production establishments in at least two countries (Caves, 1996). The subsidiary, associate, or branch created by greenfield investments often take the form of new production facilities, plants, office spaces, and distribution centers, but are not limited to these enterprises so long as the new venture has a significant degree of influence on the management of the direct investment enterprise (Duce & España, 2003; Segal, 2019).

An MNC may choose this mode of FDI primarily for the autonomy of construction and execution. That is, investment towards a new facility allows a firm the design flexibility to meet efficiency needs and maintain high-levels of control over business operations, quality of manufacturing and/or services, brand images, and staffing and

employment allowances (Segal, 2019; Cooperate Finance Institute [CFI], n.d.). A new facility could represent advantages to foreign direct investors through lower maintenance costs of capital assets, the ability to publicize new operations, and the ability to attract talent and labor (Segal, 2019). Greenfield investments also give the foreign direct investor the freedom to control pricing and market strategy, while reducing the reliance on intermediaries (Mavrick, 2019). Finally, the foreign direct investor may benefit from tax incentives for greenfield investments by a host government and/or the ability to bypass trade restrictions (Mavrick, 2019; CFI, n.d.).

However, barriers to greenfield investments such as the high fixed cost of market entry and facility construction, as well as local-content requirements (LCR) or the outright ban of FDI in certain industries in a host economy, could be a significant deterrent for an MNC (CFI, n.d.). LCRs are "policies imposed by governments that require firms to use domestically-manufactured goods or domestically-supplied services in order to operate in an economy" (OECD, "Local Content Requirements", n.d.).

Moreover, firms able to pursue greenfield investment are often more vulnerable to significant political and economic risks, as they are often limited in their ability to divest from wholly-owned foreign assets (Mavrick, 2019). These risks can include issues with permitting, local labor, local regulations, currency transfer risk, reparation restrictions, natural environment, access to resources, tariff disputes, and macroeconomic instability in the host economy. Firms can also be subject to breaches of contract due to obsolescing bargaining or outright expropriation (Ramamurti, 2001).

To reduce exposure and consequences of these risks, firms sometimes prefer brownfield investments or joint ventures. Brownfield investments in FDI are cross-border mergers and acquisitions (M&A), in which "firms [trade] heterogeneous corporate assets to exploit complementarities" (Nocke & Yeaple, 2008). In brownfield investing, facilities and some capital assets for the operation of the foreign direct investor are bought or leased from an enterprise in the host economy (Bayar, 2017). Similarly, firms can engage in FDI through joint ventures, in which firms engage in transnational strategic alliances with a local firm by pooling in a host country (Lopez & Esteban, 2004) – so long as the joint venture represents a "lasting interest."[1]

Brownfield FDI and joint ventures allow foreign direct investors to reduce start-up costs and time expenditures as infrastructure, permitting, licensing, and/or staffing may already be completed and in compliance with the host country's regulations (Segal, 2019). This investment strategy allows firms to come to enter the market more quickly, potentially limit the firm's losses from capital investments, and may provide an exit strategy.

Moreover, these investment strategies can be considered advantageous to greenfield strategies for a foreign direct investor if that investor seeks to overcome the "liability of forgiveness"[2] (Lopez & Esteban, 2004). In this way, M&As and joint ventures allow "participating firms the possibility to realize synergies" (Raff et al., 2006).

[1] "The 'lasting interest' is evidenced when the direct investor owns at least 10% of the voting power of the direct investment enterprise" (OECD, "Explanatory Notes", n.d.)

[2] "[The Liability of Forgiveness] is commonly defined as 'the costs of doing business abroad that result in a competitive disadvantage for an [MNC] subunit … broadly defined as all additional costs a firm operating in a market overseas incurs that a local firm would not incur'" (Zaheer, 1995, as cited in Zhou & Guillen, 2016)

However, through brownfield investing, firms may experience buyer's remorse if purchases require major upgrades and higher maintenance costs, cannot adapt to production needs, or incur unanticipated tax and regulatory issues (CFI, n.d.). Joint ventures may also limit the autonomy of an investing firm thereby potentially souring their operations in a host economy.

1.2 Determinants of Foreign Direct Investment: Eclectic Paradigm

Although several theoretical frameworks exist to explain why firms may choose to go abroad, the eclectic paradigm—also known as the OLI Framework—" [represents] the dominant analytical basis…on the determinants of FDI and external activities of multinational companies" (Amal, 2016). This framework developed by John Dunning (1997), does not put forth a testable hypothesis; rather it is an organizational perspective of international business (IB) that seeks to explain the determinants of the FDI strategies of an MNC by establishing a dynamic relationship between a host economy and the firm's perceived advantages (Neary, n.d.).

The eclectic paradigm outlines the advantages that must be present for a firm pursuing a particular approach to FDI, for the approach to provide a greater overall value than an alternative investment (Bloomenthal, 2019). In order for FDI to be a negative opportunity cost (net-beneficial for the firm), the firm must identify an ownership advantage, a localization advantage, and an internalization advantage (Bloomenthal, 2019).

An ownership advantage is a firm-specific advantage that is indicative of either a valuable market power or cost advantage that outweighs the cost of operation in a foreign economy (Markusen, 1995). The advantage could stem from a production process and/or product that is unique to the firm; moreover, intangible assets such as blueprints, proprietary information, patents, trade secrets, trademarks, brandings, and reputation could be considered ownership advantages for a particular firm (Markusen, 1995; Bloomenthal, 2019). Any owned asset identified should be applicable in the foreign host economy to be considered advantageous for the firm (Neary, n.d.). Empirically, "knowledge-based assets are more likely to give rise to direct foreign investment than physical capital assets" (Markusen, 1995).

Location advantages are country-specific characteristics that provide opportunities for profit (Oatly, 2012). There are three primary characteristics that are indicative of a location advantage in a host economy: a large reserve of natural resources, a large and accessible local market, and opportunities for efficiency enhancements of a firm's operations (Oatly, 2012). For production firms, a specific benefit—such as overcoming tariff quotas, transport costs, or factor prices—must exist to entice a firm to produce in a foreign economy rather than service that economy through exports (Markusen, 1995).

Finally, the firm must determine an advantage to internalization; that is, a reason to endogenize an operation rather than outsource that operation to another indigenous firm. In some cases, it may be more cost-effective, time-effective, and less risky for a firm to contract a local third-party to conduct their foreign operations at an arms-length (Bloomenthal, 2019). Moreover, the local third-party may offer a greater knowledge of

local markets and/or a pool of skilled-employees that can meet quality standards at a lower-cost (Bloomenthal, 2019).

Outsourcing in this way may be limited for some firms due to difficulties with licensing, information asymmetries, risk of local firms defecting, high costs of transferring technologies, or principle agency issues such as intellectual property or reputation (Markusen, 1995). These firms may have to internalize to operate abroad. Moreover, firms are less likely to outsource and more likely to internalize "when the products are new, complex, have no prior commercial application, and are produced by R&D-intensive firm" (Davidson & McFetridge, 1985, as cited in Markusen, 1995).

The OLI framework dictates that all three taxonomic advantages must be known for a firm to engage in FDI. For instance, a location advantage like access to natural resources may explain why a firm is motivated to conduct business abroad but does not explain why the firm must consolidate its operations in the foreign economy under one corporate structure. Moreover, advantage factors do not necessarily need to be independent. Narula & Nguyen (2011) found that "the internationalization of firms follows a similar interaction between ownership assets and location assets regardless of their origin" (as cited in Amal, 2016).

1.3 Determinants of Foreign Direct Investment: Push and Pull Factors

The dynamic established by the OLI framework is not wholly dependent on the host economy—that is, the MNC's home-market factors can be analyzed for advantages

(Amal, 2016). A firm's cost-benefit-analysis is dependent upon home country and host country conditions. Such conditions give rise to push and pull factors.

Pull factors—the conditions that explain why a country may attract more FDI than another—include the aforementioned locational advantages: access to large and growing markets, raw materials and resources, and low-cost and high-quality labor. Additionally, political conditions, such as political stability, predictable political institutions, and executive ideology may provide credible assurances that may attract a foreign direct investor (Jensen et al., 2012). Similarly, the host country's macroeconomic situation—including, inter alia, gross-national-product (GNP), gross-domestic-product (GDP), openness to trade, exchange rate regimes, financial development—may also serve to attract capital (Hannan, 2018). Pull factors are specific to the recipient country.

Alternatively, the home country conditions that persuade firms to invest abroad are known as push factors. Variables such as "global risk aversion, global commodity prices, U.S. (or a group of advanced economies) economic growth, and U.S. (or a group of advanced economies) interest rates" are typical push factors (Hannan, 2018). Moreover, push factors may arise from credit market imperfections, technological advancements, or interest rate differentials between countries (Fernández-Arias, 1996 as cited in Jensen et al., 2012).

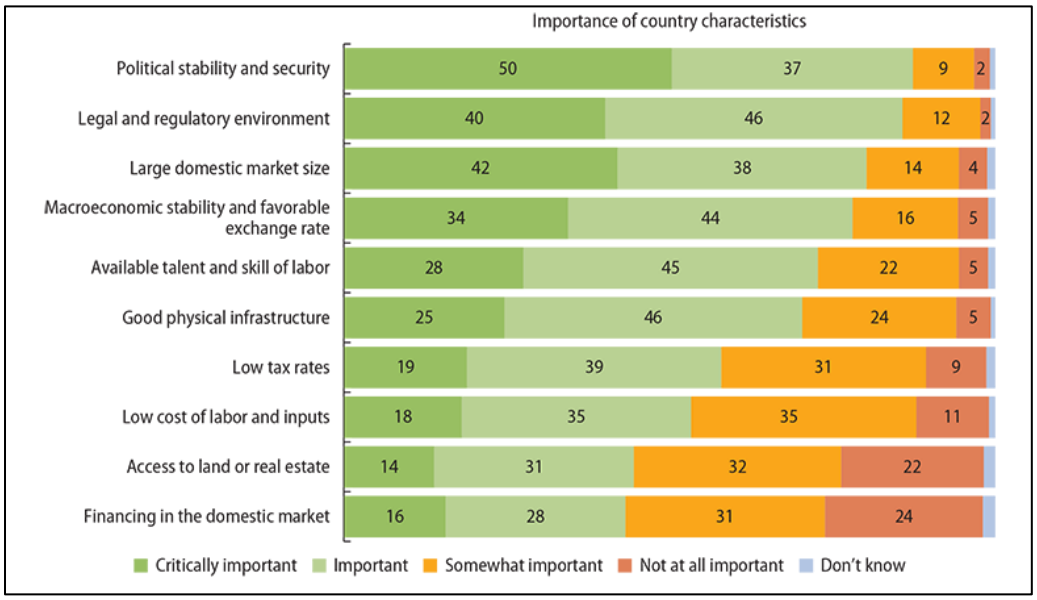
Push and pull factors work simultaneously to determine capital inflows. There is no obvious consensus on which factor is most salient in the determination of shaping the volume of capital flows (Hannan, 2018). However, because push determinants are usually

not controllable by host economies (Jensen et al., 2012), this paper will focus on pull determinants for policy recommendations.

Understanding firms' perspectives are important to this end. The Global Investment Competitiveness Report 2017/2018 surveyed 750 MNCs concerning FDI in developing countries (The World Bank, 2017). The survey outlines the most important considerations of MNCs looking to invest abroad; which can be interpreted as pull factors.

Figure 1.

Results of The World Bank's survey of multinational investors and corporate executives



Note. Retrieved from The World Bank, "How Developing Countries Can Get the Most Out of Direct Investment" (p 6), Kusek and Silvia, 2017.

The results of the survey demonstrate that although many countries attempt to attract investment through taxation incentives (World Bank, 2017), political stability and security, as well as the characteristics of the legal and regulatory environment, are of a

substantially greater concern to investors. In this way, investment incentives are generally only effective pull conditions when investors are irresolute between two comparable locations (World Bank, 2017). The results of this study will be referenced in composing a policy position.

1.4 Foreign Direct Investor's Strategy: Internalization Theory

In general, FDI is driven by market imperfections. Market imperfections are the result of price mechanisms failing to promote welfare-improving transactions (Oatly, 2012). "Market imperfections in international intermediate product markets are necessary and sufficient to explain the existence of [MNC]s" (Eden & Dai, 2010, as cited in Buckley, 2017).

Put simply, a perfect market cannot exist and because the market is imperfect, an MNC can take advantage of their market power—e.g. technological superiority or superior organizational structure—to boost their profits through FDI. A common example of market imperfections leading to FDI is the automotive industry: a car manufacturer in Country A may create a production facility in Country B to bypass Country B's high tariffs if the car manufacture believes that they can gain a competitive advantage in Country B's market.

However, as discussed in the eclectic paradigm, firms may not be able to extract profit from an existing locational advantage without internalizing the cross-border transaction. There are two main modes of internalization brought about by imperfections: horizontal and vertical integration (Oatly, 2012).

The former refers to firms that own multiple production facilities that produce the same good when a cost advantage exists for placing those plants under a single corporate structure (Caves, 1996). Cost advantages in this case are usually present when intangible assets represent the most critical source of a firm's revenue (Oatly, 2012).

Vertical integration, on the other hand, is an internalization method in which firms structure their transactions for intermediate goods under a common administrative control (Oatly, 2012). This mode of internalization is the result of the inability to write and enforce long-term contracts with respect to a specific-asset (Oatly, 2012).

1.5 Host Economy: Cost and Benefits of FDI

There is little consensus on the cumulative effect of FDI on development and economic growth of a host economy. Theoretical and empirical analyses often vary depending on the economic and political assumptions or conditions of the host economy. For this reason, cost-benefit discussions in this chapter will primarily concentrate on FDI effects on economies similar to that of the Republic of Egypt: Developing and Lower-middle-income (United Nations World Economic Situation and Prospects, 2019).

In general, developing countries have become increasingly reliant on FDI inflows as a source of private external finance—as a result of FDI being indicative of long-term interest in a country (Mallampally & Sauvant, 1999). Moreover, FDI has empirically proven to be a resilient capital flow during recessionary periods (Loungani & Razin, 2001): a lifeline for developing economies. Although recently FDI inflows to developed countries

have trended negatively, FDI towards developing countries increased 2% to $706 billion USD (UNCTAD, 2019).

In theoretical literature, advocates of FDI cite enhancements to technology diffusions, human capital formation, and international trade integration as positive externalities to FDI (OECD, 2002). Moreover, FDI often increases competition in local business environments, mobilizes national savings, improves environmental and social conditions in the host, and increases employment (OECD, 2002; CFI, n.d.). MNCs can play a positive role by shipping capital to where it is scarce, transferring technology and management expertise, and promoting the efficient allocation of resources in the global economy (Oatly, 2012). These effects, in turn, lead to the accumulation of capital and economic growth in a host economy (OECD, 2002).

Opponents of FDI are less optimistic of the role of MNCs. Believing instead that the introduction of foreign MNCs may crowd out local capital, reduce the total available capital, drive local firms out of business, maintain tight control over their technology, repatriate their profits, and push for deregulation (CFI, n.d.; Oatly, 2012).

Empirical literature suggests that the overall impact of FDI on an economy may be dependent on the foreign firms' mode of entry. The following table summarizes the conclusions of prominent literature on the subject of FDI economic impact. Primary indicators of economic effects include economic growth (EG), income inequality (IE), and overall productivity.

Table 1.

Literature Review of empirical studies on the relative economic impact of FDI

Author(s) of Study	Study Period	Effect of Greenfield Investing in Developing Countries	Effect of Brownfield Investing and/or JV of Developing Countries
Moon et al. (2003)	1999-2002	No Data	Positive (EG)
Calderón et al. (2004)	1978-2001	No Significant Effect (EG)	No Significant Effect (EG)
Wang and Wong (2009)	1987-2001	Positive (EG)	Negative (EG)
Neto et al. (2010)	1996-2006	Positive (EG)	No Significant Effect (EG)
Zhuang and Griffith (2013)	1990-2009	Positive (IE)	No Significant Effect (IE)
Ashraf et al. (2015)	2003-2011	No Significant Effect (Productivity)	No Significant Effect (Productivity)
Harms and Meon (2014)	1987-2005	Positive (EG)	No Significant Effect (EG)
Luu (2016)	2003-2004	Positive (EG)	Positive (EG)
Zvezdanović-Lobanova et al. (2016)	2000-2014	No Data	Negative (EG, current period) Positive (EG, lagged)

Note. Created from "Greenfield and Brownfield Investments and Economic Growth: Evidence from Central and Eastern European Union Countries" (p 20-21), Y. Bayar, 2017

The summary of conclusions in Table 1 reveals that greenfield investment in developing countries generally has a net positive effect on economic growth at the very least. Whereas, indicators for Brownfield investing are non-conclusive or contradictory. These studies may imply that greenfield investing is a preferable form of FDI for developing countries seeking economic benefits on a macro level. A more thorough description of each study is described in Bayar's Literature Review. Additionally, it is the general consensus of literature that "greenfield investments have significantly higher positive effects on the employment rate than the brownfield ones" (Strat, Davidescu, & Paul, 2015).

In general, the outcome of FDI is dependent on the quality of MNCs a country attracts with its policies and—to some degree—the state of the economy prior to FDI: high levels of existing human capital coupled with FDI can lead to explosive economic growth (Moran, 1998). Positive outcomes stem from high-efficiency investments and greater capital inflows, which a country can achieve by improving the local investment environment and functioning of the market (Hausmann & Fernández-Arias, 2000). Moreover, the policies that benefit domestic firms—e.g. investments in education and infrastructure—are the same policies that encourage FDI to have positive impacts on development (Moran, 1998).

1.6 Host Economy: Spillovers

One of the more salient rationales for FDI attraction is productivity gains from spillover effects (Alfaro et al., 2000). Spillovers—like technology diffusion—are the results of interactions between domestic firms and MNCs. The two primary interactions are horizontal and vertical linkages.

The former occurs when domestic firms are affected by MNCs operating in the same industry (Li & Lou, 2019). So-called horizontal spillover—the positive productivity gains in this case—is the anticipation that competition and/or knowledge transfer across the industry will make domestic firms more productive. That is, domestic firms may improve their efficiencies by mimicking rival MNCs' technologies or marketing techniques through the demonstration effect or hiring workers trained by the foreign affiliates (Javorcik & Spatareanu, 2005).

Consider the case of a domestic firm, Firm C, in Country C which produces 100 units of a product. Horizontal spillover would occur if Firm C were able to increase their production after an MNC that produced the same (or similar) product entered Country C's market. One example of this effect could be if the domestic firm learned an assembly technique from observing the MNC, their production output could become more efficient and, thus, the domestic firm would become more competitive.

However, intra-industry spillovers of this kind are not readily observed; likely because foreign firms lack an incentive to transfer their capabilities to domestic rivals (Rand, 2015). Moreover, the pursuit of horizontal spillovers runs the risk that foreign firms may outcompete and drive domestic firms out of business (Javorcik & Spatareanu, 2005). The challenge for researchers "lies in disentangling the positive impact of knowledge flows from the potentially negative short run effect an increase in competitive pressures…on domestic firms" (Javorcik & Spatareanu, 2005).

Vertical spillovers, on the other hand, emerge from linkages between domestic and foreign firms across different stages of production (Rand, 2015). With respect to case above, vertical spillover would occur if instead of an MNC entering Country C to compete with Firm C, it used Firm's C product in its own production; thus, requiring Firm C to boost their output from 100 units to 200 units.

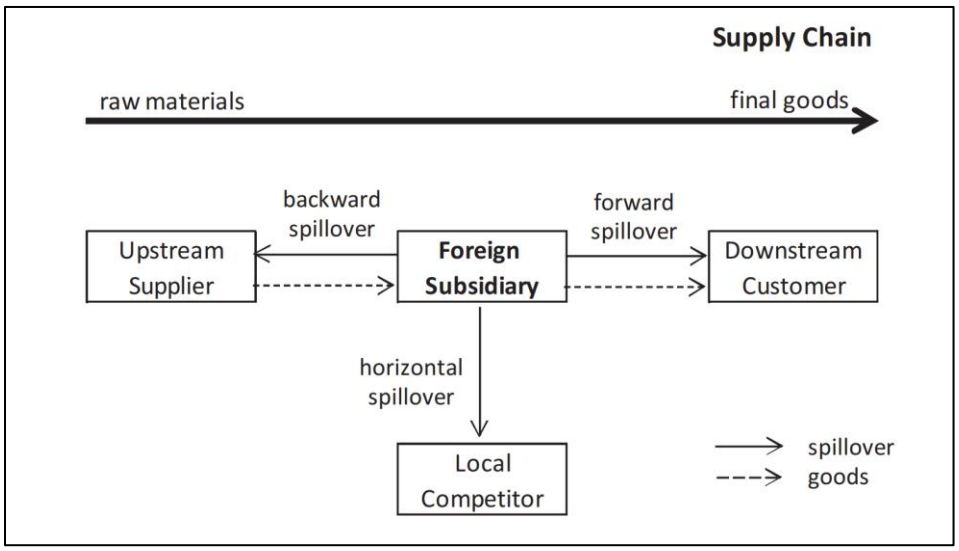
Javorcik & Spatareanu (2005) identify three primary scenarios for vertical linkages: cherry-picking, productivity shock, and improved performance to meet demand.

Negligible spillovers result from the first scenario. In this case, MNCs award contracts to domestic firms with sufficient preexisting sophistication (Javorcik & Spatareanu, 2005); thus minimizing the disruption to the status-quo. Alternatively, domestic firms may experience a productivity shock by increasing their efficiency and output capabilities to meet an MNC's demand and vie for contracts (Javorcik & Spatareanu, 2005). Finally, vertical spillovers may be derived from improved performance in domestic suppliers of an MNC; resulting from higher quality requirements imposed by the MNC or support from foreign customers (Javorcik & Spatareanu, 2005). A permutation of these three scenarios may also occur (Javorcik & Spatareanu, 2005).

Evidence for the existence of vertical spillovers is more apparent than that of horizontal (Javorcik & Spatareanu, 2005). Moreover, vertical spillovers account for MNCs having effects both upstream and downstream of their respective industries. The orientation "from foreign firms to domestic suppliers" is known as backward linkages—with the contrary orientation being forward (Rand, 2016). Industry linkages discussed thus far can be visualized in the following figure:

Figure 2.

Flowchart of spillover relationships: Horizontal, Backwards, and Forwards



Note. Retrieved from "Horizontal or Backward? FDI Spillovers, Input-Output Table Industry Aggregation" (p.4), Lenaerts & Merlevede, 2012.

Furthermore, these linkages may have varying effects across different industries dependent on technological levels; "with negative horizontal effects are particularly prominent in low technology sectors" (Jeon et al., 2013). However, empirical studies often admit that observations of spillover effects are difficult, inconclusive, and time-varying. Yet, the consensus among scholars seems to be that "the role of foreign MNEs in bringing local suppliers up-to-date with best practices should be counted amongst the policy benefits when judging whether it is appropriate to provide policy incentives to FDI" (Wang & Zhao, 2008). Also implying that FDI policy can be optimized by targeting specific types of FDI (Wang & Zhao, 2008).

CHAPTER TWO: THE CONTEMPORARY EGYPTIAN ECONOMY

2.1 Egypt and the IMF

The contemporary economic climate of Egypt is significantly dependent upon the legacy of the 2016 International Monetary Fund (IMF) loan agreement. The immediate priorities of the agreement were the restoration of macroeconomic stability and the circumvention of an impending crisis (IMF News, 2019). Its implications, however, reached far beyond those initial priorities and continue to resonate across economic strata.

The IMF loan agreement took aim at addressing Egypt's underlying vulnerabilities that largely stemmed from the 2008 international financial crisis and the 2011 Egyptian revolution (IMF News, 2019). These vulnerabilities included:

> an overvalued exchange rate (and the corresponding rise of a parallel, or black market, exchange rate); foreign exchange scarcity, which severely undermined private sector activity; a dramatic drop in foreign exchange reserves; large fiscal deficits; and a high level of public debt (Momani, 2018).

However, prior to the loan agreement, Egypt attempted several significant structural reforms with inconsistent implementation and various degrees of success (IMF News, 2019). In fact, the failure of these government-led reforms to reduce poverty, decrease unemployment, address inequality, and limit corruption fueled the political opposition to the Hosni Mubarak government in 2011 (Momani, 2018).

Moreover, the Egyptian revolution and its subsequent political transition—in tandem with underlying structural challenges, reduced tourism, and lessened income from the Suez Canal—further exacerbated macroeconomic imbalances (Lagarde, 2016; Momani, 2018). In response, Egyptian authorities initiated policy adjustment measures in 2014/15. The Central Bank of Egypt (CBE), for their part, "devalued the Egyptian Pound (EGP) by 5 percent and increased interest rates to contain inflationary pressures" (Lagarde, 2016). Meanwhile, the government raised fuel and electricity prices, introduced new measures to gradually phase out subsidies, and legislated to replace the General Sales Tax with Value-Added Tax (VAT) (Lagarde, 2016). However, as momentum for the reforms slowed, "planned fuel price increases were deferred, income taxes were cut, the capital gains tax was postponed and parliamentary consideration of VAT was delayed" (Lagarde, 2016).

Inevitably, growth slowed (Lagarde, 2016). Egypt increased its reliance on external benefactors, turning to the Gulf States to finance its budgetary shortcomings and endow the CBE with liquidity support (Momani, 2018). Saudi Arabia, for instance, contributed $25 billion from 2013 to 2016, but financing from the Gulf States was unsustainable (Momani, 2018). The failures of the reforms and the overvalued EGP resulted in a "drastic reduction in foreign exchange reserves, high inflation, unsustainably high levels of public debt," and an increase in unemployment (IMF News, 2019). "By mid-2016, as an acute foreign exchange shortage began crippling Egypt's economy, particularly the manufacturing sector, Cairo formally sought an IMF agreement" (Momani, 2018).

In November of 2016, the IMF Executive Board approved a $12 billion USD extended arrangement under the Extended Fund Facility (EFF) for Egypt (Lagarde, 2016). The approval of the program granted the immediate disbursement of US$ 2.75 billion, with the remaining balance contingent upon five compliance reviews over the three-year program (Lagarde, 2016).

Table A1 in the appendix enumerates the specific actions Egypt implemented over the course of the third review through the final review. Notable actions include: the introduction of a market-determined exchange rate system (currency float), adoption of the VAT, increases in energy prices, the reduction of food subsidies, and legislation on investment laws (Momani, 2018). From the table, the most salient objectives for these actions are improving debt management, improving labor force participation for women and youth, modernizing legislative frameworks for CBE, subsidy reform, improving foreign exchange rate management, strengthening competition, improving public enterprise transparency, developing capital markets, strengthening fiscal sustainability, improving access to land, inter alia (IMF Country Report, 2018).

At the conclusion of the program, the IMF was largely satisfied by Egypt's progress (IMF Country Report, October 2019). In an interview Subir Lall, head of the IMF team for Egypt, said,

> The program achieved its key objective of macroeconomic stability, which is a precondition to attract investment, raise growth, and create jobs. Current account deficits have fallen and foreign exchange reserves are at all-time high levels. Growth has recovered from around 4 percent to 5.5 percent now, and is expected

> to reach 6 percent by next year, while unemployment has fallen below 9 percent to its lowest level in over a decade. Public debt has begun to decline and inflation has fallen steadily—on track to reach single-digits by next year. This sets the stage for broader reforms, such as improving the business climate, which can lead to higher private sector-led investment and job creation (IMF News, 2019).

The IMF's final review, however, stated that given the fast-increasing number of job seekers, a reduction in the reform's momentum would depress potential growth and output, while increasing pressure on unemployment (Saba, 2019). Since then, the IMF has also reclassified Egypt's currency regime from "floating" to "other managed arrangement" to reflect the EGP's reduction in volatility and the periodic intervention on behalf of the CBE (Sivabalan, 2019).

For its part, Egypt seems to have turned down a new loan agreement with the IMF (Awad, 2020)—although there seems to be conflicting reports as to whether a new loan arrangement was to be negotiated in the first place. As of February 2020, Egypt and the IMF are discussing other support methods; including, a "Stand-By Arrangement" (SBA) for emergency financing and a "Policy Coordination Instrument" (PCI)—a consulting tool provided by the IMF (Awad, 2020; IMF Factsheet, 2020). "In the event that neither of the two previous programs is agreed upon, the IMF could initiate post-program monitoring" (Uma Ramakrishnan as cited in Awad, 2020).

2.2 Contemporary Egyptian Economy: Macro-Economy and FDI

Analysts praised Egypt for its economic reforms (Saba, 2019). With gains of 5.6 percent in the previous fiscal year (FY), growth of 5.8 percent in the current FY, and an expectation of a similar increase in the years to follow, Egypt has become one of the fastest growing economies in its region (Saba, 2019; Werr, 2020).

Indeed, in the wake of the IMF reforms, most macroeconomic indicators are trending positively. For instance, Egypt's external debt fell to 32 percent of its GDP, compared to the 42 percent average for most of its emerging peers (Shams El Din, 2019). Moreover, Egypt's inflation is near an all-time low, while "foreign currency reserves are booming and the stock market is 62% bigger than its post-float low" (Sivabalan, 2019).

These macroeconomic improvements have not gone unnoticed. International bond investors seeking high yields are now favoring Egypt (Saleh, 2019). Moreover, Egypt remained the largest destination for FDI in Africa, and inflows increased by 5 percent in 2019 to total $8.5 Billion USD (UNCTAD, 2020). In context, FDI inflows to North Africa, as a whole, declined by 11 percent to $14 Billion USD (UNCTAD, 2020).

However, the rising tide from macroeconomic growth—especially in terms of FDI inflows—has yet to lift all boats. Growth in Egypt has been largely concentrated in the state sector, while the non-oil private sector contracted in nearly every month of 2019 (IHS Markit Index as cited in Werr, 2020). In fact, "non-oil private sector growth has expanded in only six individual months since a 2016 economic reform [program]" (Werr, 2020): the notable non-oil-and-gas investments include telecommunications, real estate, and tourism (UNCTAD, 2020).

The July 2019 World Bank report warned that the state's current business environment will continue to depress non-oil private sector activity (Saleh, 2019). The report states that future reforms "should put larger emphasis on levelling the playing field to allow for more private sector participation in the economy, based on fair and transparent rules of competition and economic empowerment" (World Bank, 2019 as cited in Saleh, 2019).

Moreover, although MNCs are ramping up investments in Egypt, "the sums committed are still modest because public consumption has yet to rebound to pre-2016 levels" (Mohamed Abou Basha as cited in Saleh, 2019), likely due the effects of the still-elevated inflation rate resulting from the currency float (Stevenson, 2019). Egyptian officials maintain that FDI will soon ramp up and "that it is always a lagging indicator" (The Economist, 2019a).

Furthermore, the limitation of FDI to the aforementioned four industries hinders Egypt's ability to benefit from FDI spillovers. As mentioned in the previous chapter, vertical spillovers from forward and backward linkages in high-technology sectors are generally the most fruitful results of FDI. The concentration of FDI inflows in only oil, telecommunications, real estate, and tourism handicaps Egypt's ability to optimize their FDI returns.

Moreover, until 2016, the state also held a monopoly on the telecommunication industry (SantanderTrade, 2020), thus limiting opportunities for horizontal spillover as newer companies in the market have to compete with an established state industry.

Additionally, FDI in real estate is limited to joint ventures (SantanderTrade, 2020); note that Table 1 shows that joint ventures generally do not have a significant effect on economic growth in developing markets, like Egypt.

2.3 Contemporary Egyptian Economy: Micro-economy and Unemployment

Like the majority of industries, the Egyptian people also have not shared in the spoils of economic growth post-IMF reform. Little has improved economically for Egyptian citizens and some have found themselves worse-off as a result of IMF measures (The Economist, 2018). For instance, despite the governments virtue signaling—vowing to halve the poverty rate by 2020 and eliminate it by 2030—poverty in Egypt increased from 28 percent in 2015 to 33 percent by the end of 2018 (The Economist, 2019b). Moreover, it is likely that these numbers are biased by the misleadingly low official poverty line of 736 pounds ($45 USD) a month (The Economist, 2019b).

Moreover, the IMF's planned float of the EGP was coupled with a sudden and lasting spike in inflation (Momani, 2018). A period of high inflation was expected from the currency devaluations, however, "the EGP depreciated even more than the IMF had anticipated" (Momani, 2018). Consequently, the devaluation gave rise to increased prices of basic consumer goods: e.g. sugar, oil, baby formula, and rice (Momani, 2018). This in turn, has led to hoarding of goods, profiteering, and increasing unaffordability of pharmaceuticals (Momani, 2018). Simultaneously, nominal wage growth fell below inflation from 2016 to 2018 during the IMF's reforms, further contributing to grim social conditions and hardships (World Bank, 2019).

At its peak, Egypt's inflation rate reached 33 percent in mid-2017—falling significantly from then to 6.8 percent in 2019/20 (Werr, 2020). However, analysts expect inflation "to rebound to 7.5% in 2020/21 and 8.0% the following year", and it is expected that the "currency's strong appreciation over the last 12 months would begin to reverse this coming April 2020, when a $1 billion Eurobond repayment is scheduled" (Werr, 2020).

Moreover, unemployment provides another challenge for the Egyptian economy: "The number of jobless people reached 28.950 million people during the last quarter of 2019" (Egypt's Central Agency for Public Mobilization and Statistics [CAPMAS] as cited in Egypt Today, 2020). To its credit, Egypt has prompted the IMF to improve its expectations for unemployment in the country: predicting it would fall to 7.9 percent in 2019 rather than its initial estimate of 8.3 percent (Saba, 2019).

Egypt's ambitious "2030 Vision" aims to lessen unemployment to just 4 percent (Egypt Today, 2020)—by 2028 Egypt's working age population will be 80 million (Saba, 2019). However, according to the IMF, "Egypt needs at least 700,000 new jobs annually to absorb its young and growing population and that can only come from the private sector" (IMF News, 2019).

Additionally, youth unemployment shows little signs of ameliorating. Of the millions unemployed, 90 percent are below the age of 30 (International Labor Organization, n.d.): as of 2019, youth unemployment in Egypt has remained above 32 percent (Federal Reserve Bank of St. Luis, 2019). "With increased unemployment, more

and more university graduates are either finding jobs in the informal sector or informal employment in the private sector" (Gahfar, 2016).

Similarly, females are also disproportionately disadvantaged in terms of employment. According to CAPMAS, females account for 75 percent of the unemployed in Egypt (Egypt Today, 2017).

In regard to FDI, "an important number of specialists argue that countries with higher unemployment rates have two major advantages in the eyes of foreign investors: a) plenty of available [labor] force; b) high probability of finding available work force at lower wages" (Blanchard, 2011, as cited in Strat et al., 2015). So, a high unemployment rate may not necessarily be to Egypt's disadvantage—although there are studies that point to the contrary (Brozen, 1958, as cited in Strat et al., 2015).

2.4 Egyptian Mega-Projects

In 2019, Egypt finally saw a decline in unemployment rates. "Economists attribute the drop in the joblessness rate to national mega-projects that include the construction of new cities, thousands of kilometers of roads, electricity plants and bridges" (Emam, 2019). This is likely because Egypt's construction sector employs about 14.1 percent of its workforce (Emam, 2019). Moreover, Egypt's Minister of Investment claimed that President Abdel Fattah al-Sisi decided to focus his efforts on construction specifically to create jobs for the youth (Sahar Nasar as cited in Vio, 2018). However, there is uncertainty

as to whether the status-quo, as is, can continue this positive employment trend (Emam, 2019).

For context, not long after President al-Sisi came to power, he announced a series of large scale national projects that have come to be known as ‘mega-projects’ (Egypt Today, 2017). As of 2019, several projects have already been completed, some are in progress, and others have yet to break ground. The five main categories of these projects include construction projects, power projects, agricultural projects, logistics and ports, and Ministry of Transport Projects (Flanders, 2018). It is estimated that the active projects, as of 2018, were worth over $335 billion USD (Flanders, 2018).

With respect to construction, there are several high profile and high expense projects underway. One such project is the construction of the new administrative capital 28 miles east of Cairo (Flanders, 2018). Construction for the new city began in 2016, and once completed, it is expected to house the main government departments, ministries, foreign embassies, a justice district, a central business and financial district, and an international airport (Embassy of Egypt, 2018). Egypt estimates investments totaling $8 billion USD over 10 years (Flanders, 2018). China, for instance, is establishing an electric train that transports locals and goods—with a loan of $740 million USD—to link the capital city with other key cities (Flanders, 2018). Aside from China’s developments, the new capital has been funded entirely by domestic money; despite Egypt’s calls for foreign investment, private investors have expressed limited interest. (JLL, 2018).

In addition to this massive undertaking, Egypt is also planning the construction of three other cities: “the New Ismailia City, the New Alamein City, and an integrated City at Al-Galala, East Port Said City” (Embassy of Egypt, 2018). Each project boasts its own strategic vision. The city at Al-Galala, for instance, “is rich in natural resources and development projects are underway to support investment opportunities in mining and construction material industries” (Flanders, 2018).

Moreover, Egypt has undertaken, or plans to undertake, several substantial energy and power projects. Since 2014, $27 billion USD has already been spent developing Egypt’s national electricity grid (Flanders, 2018). Additionally, two primary mega-projects were announced to supply energy to the grid. One project already underway is the development of the world’s largest solar array at the Benban Solar Park in the Aswan Governorate (Embassy of Egypt, 2018). The International Finance Corporation (IFC) has supported the project with $653 million USD in investments (Embassy of Egypt, 2018).

Similarly, a partnership with Siemens—a German MNC—has led to the development of “the largest gas power generation plant in the world” (Santander, 2020). “The mega-project [with Siemens] includes the construction of three 4.8 GW turnkey combined-cycle power plants, namely Beni Suef, Burullus and New Capital, and 12 wind parks, including approximately 600 wind turbines” (Flanders, 2018).

It is clear that these projects are motivated significantly by economic development. For instance, the impetus for mega-projects in agriculture, such as the project to reclaim and develop a million and a half acers, is the restoration of significant industries in Egypt

(Flanders, 2018). “The agriculture sector accounts for 17 percent of Egypt’s GDP” (Egypt Today, 2017), but these projects are geared towards clustering other economic activity; in turn this economic activity leads to the creation of residential communities that attract local workers and foreign investors (Flanders, 2018).

Additionally, there are many planned mega-projects that involve the construction of ports, high-speed rail systems, and major roads. A more comprehensive list of mega-projects can be found in the Flanders Investment and Trade Market Study and in literature created by the Embassy of Egypt’s website.

However, two additional mega-projects are worth highlighting. Namely, “The New Suez Canal” and the Suez Canal Economic Zone. The New Suez Canal project launched in 2014, was completed in just one year, and involved creation of an additional shipping lane to the canal and the widening and deepening of the existing waterways (Embassy of Egypt, 2018). The expansion of the strategic waterway has been claimed to double the canals daily capacity and has promised to substantially increase Egypt’s revenue (Embassy of Egypt, 2018) — “however, many analysts doubt if the new venture will deliver the anticipated benefits” (BBC, 2015). The $8.6 billion USD project sought no external investors and was principally engineered by the Egyptian Armed Forces (Embassy of Egypt, 2018; Gergory, 2015).

In tandem, “The Suez Canal Economic zone (SCZone) was launched in 2015 and is projected to generate [$12 billion USD] annually” (Flanders, 2018). “Spanning…almost two-thirds the size of Singapore, the SCZone consists of two integrated areas, two

development areas and four ports" and was developed for the purposes of streamlining international investment (SCZone, n.d.). The project is expected to generate $12 billion USD annually by drawing investors with special customs, special tax administration system, and industrial projects (Flanders, 2018).

Unlike the New Suez Canal project, the SCZone has acquired foreign direct investors: "Over 80 Chinese companies have injected approximately [$1 billion USD] in infrastructure, and industrial and recreational projects on a 1.3 square kilometer area" (Flanders, 2018). Moreover, China's state-owned enterprise, TEDA, has signed a 45-year investment development agreement with SCZone; while China Jushi Group has created one of the largest fiberglass manufacturing facilities in the world in the SCZone (Flanders, 2018). One explanation offered for the influx of investment from China is that "Chinese companies may be attracted by Egypt's free-trade agreement with the United States, which offers them a means of exporting their goods from qualifying industrial zones to the United States under a 'made in Egypt' label" (Sayigh, 2019).

2.5 Egypt and Foreign Direct Investors

The attraction of FDI has been a consistent and salient priority of the Government of Egypt (GoE) over the last decade. One of the primary goals of the aforementioned mega-projects was the attraction of foreign capital via FDI (Embassy of Egypt, 2018), and reformation measures made by the IMF were largely exercises in making the macro-economic environment of Egypt attractive for investors (IMF News, 2019). This is likely because the GoE "understands that attracting [FDI] is key to addressing many of the

economic challenges it faces, including low economic growth, high unemployment, current account imbalances, and hard currency shortages" (US Department of State, 2019).

However, as previously discussed, Egypt has consistently failed to meet its FDI goals. This is despite those two extreme measures—IMF loan and mega-projects—Egypt has assumed. Considerations of pull factors may help explain current trends: i.e. analyzing the criteria of Figure 1 in the context of the current Egyptian economic and political climate. The top six criteria identified by Figure 1 were (in order of most important to least) "political stability and security," "legal and regulatory environment," "large domestic market size," "macro-economic stability and favorable exchange rate," "available talent and skill of labor", and "good physical infrastructure" (World Bank, 2017).

Issues related to large domestic market size were covered in analysis of the macro-economy; issues of macro-economic stability and favorable exchange rate were addressed in analysis of the IMF loan agreement; issues of available talent and skill of labor were discussed in analysis of the micro-economy; and good physical infrastructure was considered in analysis of mega-projects. To varying degrees, the majority of these indicators conclude to be favorable for Egypt in terms of FDI attraction. That is, a foreign direct investor ought to see Egypt with the lens: substantial domestic market, burgeoning macro-economy, educated population seeking employment, and rapidly developing infrastructure designed for commerce. To wit, this should be ideal for the foreign direct investor.

Issues with FDI may then be reserved for the first two criteria of Figure 1. Indeed, the consensus for several analysist and media outlets was captured in a story by The Financial Times: “Cairo has insisted that it is committed to improving the atmosphere for the private sector, but diplomats and businessmen voice concerns about the widening involvement of the state in the form of the military and security agencies in the economy” (Saleh, 2019).

For context, the Egyptian military has aggrandized in economic affairs following 2013 and now spearheads the new the phase of state-led capitalism: “the bonanza of economic opportunity that opened up after 2013 has sharply enhanced the military’s gate-keeping role and rent-seeking activities” (Sayigh, 2019). This is most evident in President al-Sisi’s awarding of mega-project assignments to the defense establishment (Sayigh, 2019); for example, the military own 51 percent of the firm responsible for developing the $45 billion capital city (Reuters, 2018).

Moreover, the Egyptian military owns dozens of businesses in various economic sectors (Rueters, 2018). It is unclear how much of the economy is under the control of Egyptian defense administrations (Meighan, 2018). However, it is known that military agencies participate—and often dominate—a wide range of industries including, “intervening in domestic supply chains and import markets, …foraying into lucrative sectors such as mobile telephones and internet provision, media broadcasting and production, and quarrying and mining” (Sayigh, 2019).

One western diplomat illustrated an investor's dilemma in competing with the military by pointing to Egypt's debilitated cement sector, "which was already oversupplied before military plants brought in extra capacity last year by launching the largest cement factory in the country" (Saleh, 2019). Analogous wariness across sectors was recorded by various would-be foreign direct investors; "…Foreign investors [are] reluctant to invest in sectors where the military is expanding or in one they might enter, worried that competing against the military with its special privileges could expose their investment to risk" (Reuters, 2018).

Moreover, it is unlikely that the military will cede their economic footholds in the near future (Sayigh, 2019). To the contrary, under the provisions taken by the IMF in the loan agreement, the military secured tax exemptions on goods, equipment, machinery, services and raw materials for purposes of national security—with right to decide which goods and services qualify for exemption resting with The Ministry of Defense (Reuters, 2018).

Military involvement in the economy in this way not only depresses FDI inflow, but also deters job creation and national debt reduction (Saleh, 2019). Moreover, the state as the primary investor in the mega-projects and new commercial assignments—the majority of contracts of which have been awarded to the military—have "[drawn] scarce capital away from other parts of the economy…[and] have accelerated competitive rent-seeking" (Sayigh, 2019).

Countering, the GoE insists that private enterprises “are operating on an even playing field and that the military is filling gaps in the market” (Reuters, 2018). Yet, President al-Sisi admitted his bias for the military by claiming that they complete sizeable and complicated projects more quickly than the private sector (Reuters, 2018). It is clear that the status of the military as the most favored contractor is and will continue to stifle private sector investment—both foreign and domestic.

CHAPTER THREE: EMPERICAL ANALYSIS

To research how Egypt can attract, retain, and extract the best benefits from FDI, it is helpful to juxtapose Egypt's economy with analogous economies that have differing FDI outcomes. In this way, studying other countries may reveal policy strategies and mechanisms that are effective—and relatively ineffective—for optimizing FDI. The conclusions of this case can then be used to inform a set of policy recommendations for Egypt.

3.1 Methodology

Egypt's reforms have signaled that the country values FDI and is actively pursuing policy adjustments to attract foreign direct investors. As previously discussed, these policy adjustments have not yet produced the level of FDI Egypt wants to and expects to attract. Chapter two evaluated the conditions of Egypt's FDI pull factors and appraised its policy and economic environment.

To further dissect causes and inform a specific policy recommendation, comparative research can be employed. This thesis uses an elementary application of the 'Most Similar Systems Design' (MSSD) for case selection criteria: comparing similar cases but only varying the dependent variable. The assumption is that selecting cases in this way allows for a more facile method of identifying the independent variables that explain the presence or absence of the dependent variable.

In the context of this analysis, the dependent variable is the relative success of FDI attraction, while the independent variables are policy instruments. In this way, an ideal country for case comparisons would share many similarities with Egypt but would differ in terms of policy—where the most salient policy differences can then be identified and analyzed.

To this end, this thesis will compare Egypt to two contemporary economies that share critical similarities in terms of economic output but vary in dimensions of policy and FDI output. To hold the maximum number of alternative factors constant, economies that share a common market and region ought to be chosen. A political and economic union, such as the European Union (EU), satisfies this requirement. Specifically, the two countries of study were selected from the EU because those countries share many legal frameworks and regulatory standards, but maintain niche policy variance.

To ensure policy diversity in terms of FDI, a prerequisite for country selection was that the country actively and publicly pursues of high-quality FDI. Therefore, a shortlist of countries was compiled from EU countries who advertise to attract FDI—informed by the OECD's "Government Strategies to Attract R&D-Intensive FDI" (Guimón, 2008).

From this shortlist, optimal cases could be selected by identifying the countries with economies most similar to Egypt's and establishing some FDI policy variation or strategy difference between the two selected countries. Of the countries on the shortlist, the Czech Republic and Portugal share the most economic commonalities with Egypt: namely, a similar nominal GDP global ranking. However, these two countries are not perfectly

analogous to Egypt beyond GDP, and, therefore, notable differences will also be highlighted in this chapter.

Operating on the assumption that Egypt is similar enough to the Czech Republic and Portugal, the dependent variables can begin to be compared to ensure compliance with the MSSD selection criteria. Table 2 outlines the relevant factors.

Table 2.

Comparisons to determine relative success of FDI

	Egypt		**Czech Republic**		**Portugal**	
	2017	2018	2017	2018	2017	2018
Nominal GDP Global Rank	45	43	48	44	47	47
Stock of FDI Global Rank	-	44	-	35	-	33
FDI Inward Flow (millions)	7,409	6,798	9,522	9,479	6,946	4,895
FDI Stock	109,677	116,385	155,994	155,024	143,637	135,777
Number of Greenfield Investments	93	91	110	132	92	130

Note. Data for Stock of FDI Rank was retrieved from CIA, "The World Factbook" (n.d.); Data for GDP Rank was retrieved from The World Bank, "Indicator" (n.d.); and all other data was retrieved from UNCTAD, "World Investment Report" (2019).

With respect to the FDI figures listed in Table 2, it is evident that although Egypt has a comparable economy to the Czech Republic and Portugal, it severely lags both countries in all indicators of FDI inflow. Because of this, within the methodological framework, Egypt can be classified as relatively unsuccessful, whereas the Czech Republic and Portugal can be classified as relative successes in terms of the dependent variable.

In short, the Czech Republic and Portugal are good economies to study because they have critical similarities to Egypt and certain policies are held constant between them, by virtue of EU membership, which allows for a nuanced focus of their policy differences.

Thus, investigating the comparative policy environment of the three countries ought to reveal the independent variables—in this case, the FDI attracting policies—that most effect FDI outcomes. To this end, it is useful to identify the spectrum of FDI policies available to any country—as shown in Table 3.

Table 3.

Policies and Factors affecting inward FDI

	Economic policies largely under domestic control		Other policies and factors
	Industrial policies	Macro-economic policies	
Affecting potential foreign investors ('determinants')	- Financial and fiscal incentives and bargaining - Efficient administrative procedures and rules on ownership - Promotion, targeting and image building - Developing key sectors (agglomeration and clustering) - Developing export platforms (EPZs)	- Availability of infrastructure and a skilled workforce and good labour relations - Sound macro-economic performance and prospects - Privatisation opportunities - Development of financial market and external debt position. - No impediments to trade of goods and services	- Global and regional economic integration and transportation costs - International, regional and bilateral treaties, including BITs and WTO. - Insurance (ICSID, MIGA, ECGD, OPIC) and political risk ratings - Location near large and wealthy markets - Availability of natural resources - Historical ties and language-use - Absence of corruption and conflict - Financial conditions in home countries
Affecting established foreign investors ('upgrading')	- Tax/Subsidy system - Performance requirements (abolished in most cases under TRIMS) - Interaction with research institutions and other firms - Encouragement of R&D - Training of employees	- Labour market policy - Trade policies, export promotion and infrastructure - Competition policy - Development of financial market	- Regional and international investment treaties - Global economic integration - Civil society
Affecting the response of domestic firms ('linkages')	- Encouragement of linkages with TNCs - Encouraging technological capabilities (R&D) - Encouraging human resources (training) - Supply side management	- Education and skill generation - Labour mobility - Competition policy - Export promotion	- Global economic integration

Note. Retrieved from OECD, "Government Policies towards Inward Foreign Direct Investment in Developing Countries" (p.4), te Velde, 2001.

The breakdown of policies and factors related to FDI attraction in Table 3 is exhaustive. For the purposes of a comparative policy case study, column one—Industrial Policies—and column two—Macro-economic Policies—are particularly useful because the degree to which a host-country can influence these variables is far greater than factors listed in column 3 (te Velde, 2001).

Moreover, the variables identified by Table 3 can further be distilled by applying the prioritization structure of Figure 1: "*Results of The World Bank's Survey of Multinational Investors and Corporate Executives- Importance of Country Characteristics."* That is, discussion of the respective policy environments of Egypt, the Czech Republic, and Portugal, can be limited to and categorized by the factors that foreign direct investors are most sensitive to.

For example, Table 3 column 1's "Efficient administrative procedures and rules on ownerships" can be discussed in Figure 1's category "Legal and Regulatory Environment." This categorization is particularly useful because it helps identify the independent variables (Policies) that produce the greatest effect on the dependent variable (FDI success).

3.2 Empirical Case Study One: Czech Republic

The monetary and fiscal history of the Czech Republic draws many parallels with the recent economic developments in Egypt. Today, the Czech Republic is classified as a developed economy, boasting a nominal GDP comparable to that of Egypt (World Bank Indicator, 2019), with a labor force 80 percent smaller than Egypt's (Index Mundi, n.d.).

Moreover, the Czech Republic's success at attracting FDI in Eastern and Central Europe is only second to Poland (UNCTAD World Investment Report, 2019).

However, near the beginning of the century, the investment climate of the Czech Republic was far more analogous to contemporary Egypt. The 1997 financial collapse derailed the Czech Republic's prior economic momentum that had stemmed from mass privatization and large influxes of foreign capital in the post-communism era (IMF, "The IMF and the Transition from Central Planning", 2012). As a result, the Czech Republic was forced engage in macro-economic reforms similar to those taken by Egypt—as discussed in chapter two. For example, the formerly pegged currency was forced into a floating regime, and austerity packages were adopted to restructure state spending (Hauner & Auty, 2020).

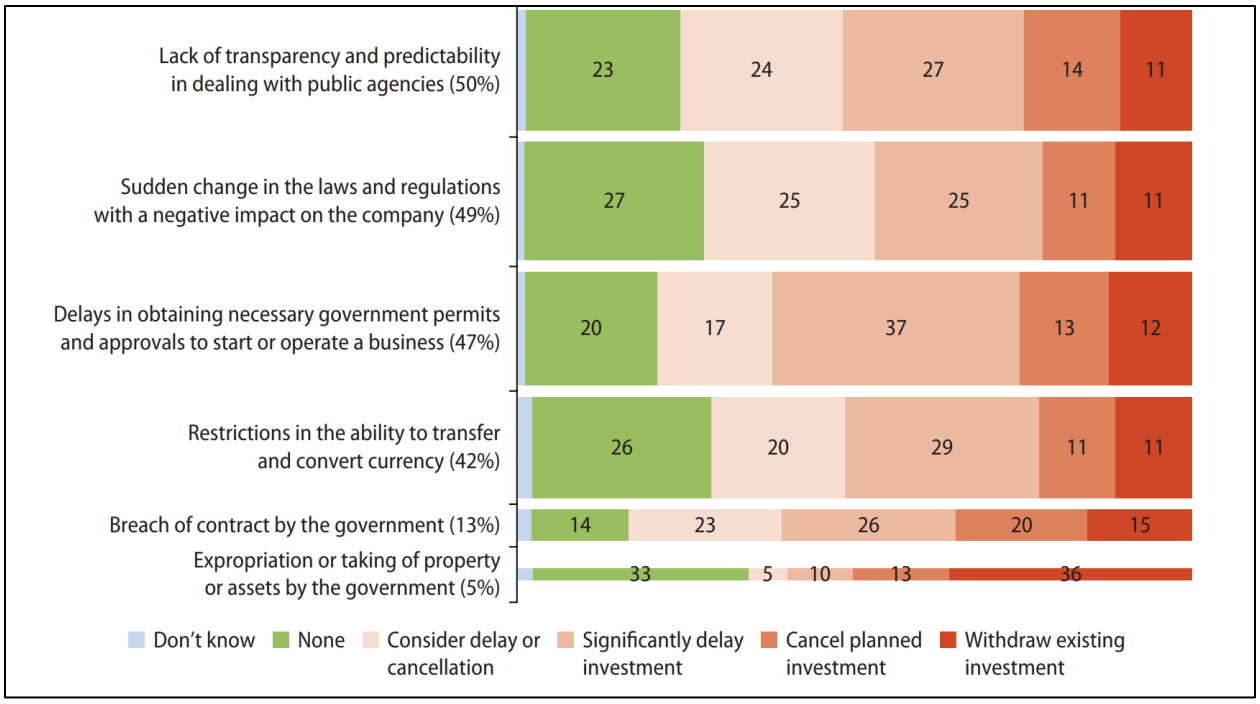
The subsequent policy developments over the next two decades catapulted the Czech Republic into becoming the fastest growing economy in the EU and, consequently, an attractive market for FDI (Hauner & Auty, 2020). Policy evolution in the Czech Republic can be directly evaluated against contemporary Egypt, with a specific focus on the policies most relevant to foreign investors: characteristics in Figure 1 in which "critically important" and "important" exceed 50 percent.

3.2.1 Political Stability and Security

To determine the most salient political factors that affect the relative success of FDI, it useful to identify the political risks to which foreign investors are most receptive. Figure 3, outlines those risks using data from the same survey used to compile Figure 1.

Figure 3.

The Prevalent Political Risks that Discourage FDI



Note. Retrieved from The World Bank, "How Developing Countries Can Get the Most Out of Direct Investment" (p 8), Kusek & Silvia, 2017.

"Lack of transparency…", "Delays…", and "Breach of contract…" in table above, can be mostly captured by a country's Transparency International's (TI) Corruption Perception Index (CPI) rank and the Heritage Foundation's Government Integrity Index

(GII) Score. Egypt's CPI rank is 105 out of 180 to the Czech Republic's 38, where a lower rank corresponds to less governmental corruption and greater transparency. Similarly, Egypt's GII of 34.0 (out of 100 possible) is significantly lower than the Czech Republic's score of 64.2, indicating to investors that Egypt is the more likely of the two countries to breach a contract.

Item two of Figure 3, "Sudden Change in the law…" can be discussed in the context of the respective countries' legislative processes. The CIA's 2019 Investment Climate Statements (ICS) for both countries outline each states' law-making procedures for would-be foreign investors. Again, the juxtaposition between the two countries is stark. The ICS (2019) credits Egypt with political reforms aimed at increasing transparency; however, it warns that, in practice, public consultation is limited. Whereas, the ICS (2019) for the Czech Republic paints a more favorable position for a foreign direct investor: in the Czech Republic "opportunities for prior consultation on pending regulations exist, and all interested parties, including foreign entities, can participate."

Moreover, prior issues related to currency transfer and conversion—item four in Figure 3—in Egypt were discussed in chapter two. However, the ICS for Egypt highlights the efficacy of Egypt's reforms. It states that, "by 2017 most firms operating in Egypt reported having little difficulty obtaining hard currency for business purposes, such as importing inputs and repatriating profits" (ICS Egypt, 2019). Likewise, though the Czech Republic does not use the Euro, the floating CZK is convertible to all currencies (ICS Czech Republic, 2019).

Finally, item five of Figure 3, "Expropriation," is also answered by the ICS: concluding that the risk is low in both countries. In fact, Egypt's Investment Incentive's Law and its Bilateral Investment Treaties guarantee against nationalization, confiscation, seizures, requisition, blocking, sequestration, and expropriation (ICS Egypt, 2019).

Other important political-risk criteria not covered by the table include the bias towards State-Owned Enterprises (SOE) and the risk of political violence. As discussed in chapter two, the risk of the former in Egypt is substantial. Recall, firms avoid market entry if the Egyptian military has operations or plans to have operations in a specific industry. In this respect, the Czech Republic holds a distinct advantage for a foreign direct investors. Legislation in the Czech Republic—Act No. 159/2006 on Conflicts of Interest and Act No. 14/2017—limit political influence on the public administration of SOEs and allow private enterprises to compete with SOEs "under the same terms and conditions with respect to access to markets, credit, government contracts and other business operations" (ICS Czech Republic, 2019).

Lastly, in comparison to the Czech Republic, the risk of political violence is higher in Egypt. The relatively recent Arab Spring and ousting of the Muslim Brotherhood are not long forgotten by foreign investors (Ellyatt, 2018). More recently, President Al-Sisi has drawn widespread criticism for his crackdowns, repression of the media, accusations of human rights violations, and arrests of his political opponents (Ellyatt, 2018).

In sum, this analysis implies that while Egypt is headed in the correct direction in terms of investor perceptions of political stability, it could improve its attraction of FDI by

emulating several policy measures of the Czech Republic: introducing a public consultation period in its legislative process, increasing firms' ability to compete with SOEs, and decreasing perceptions of political violence. In turn, this may lead to marked improvements in Egypt's CPI and GII ranks, which inform foreign investors' decisions.

3.2.2 Legal and Regulatory Environment

Similar to political security and stability, the legal and regulatory environment has measured determinates that effect not only a countries ability to attract FDI, but also to retain it. Legal environments vary from country to country. Thus, there is no objective list of determinants valued by foreign direct investors, but indicators valued by investors—such as restrictions, discriminations, and regulations—can be examined to estimate a sense of the overall environment as it relates to FDI.

For example, legal restrictions placed on foreign firms for entry into specific sectors and industries reflect a host-economies attitudes towards FDI and are primary indicators for a would-be foreign direct investor. Protectionist restrictions could be a barrier for entry or may be perceived as an obstacle for expansion by an MNC. The protectionist attitudes of a country can be captured by the OECD's FDI Regulatory Restrictiveness Index (RRI), in which a country is ranked on scale from zero (open) to one (closed) by evaluating 22 economic sectors of a country.

The Czech Republic is considerably less restrictive than Egypt. In 2018—the latest data collected—the Czech Republic's RRI was 0.1 compared to Egypt's RRI of 0.9. This difference is significant because "reforms [liberalizing] FDI restrictions by about 10% as

measured by the Index could increase bilateral FDI in stocks by 2.1% on average" (Misturai & Roulet, 2019).

In practice as well, the Czech Republic seems substantially less restrictive than Egypt. That is, Egypt has many sector-specific limitations on FDI, including "restrictions on foreign shareholding of companies owning lands in the Sinai Peninsula," requiring companies "wishing to register in the Import Registry to be 51 percent owned and managed by Egyptians," and requiring JVs for investment in hydrocarbon and real-estate (ICS Egypt, 2019; Santander, 2020). Additionally, as previously discussed in chapter two, Egypt restricted FDI on several of its recent mega-projects.

In contrast, "there are few restrictions on foreign investment [in the Czech Republic] except in certain sectors that require access to sensitive information" (ICS Czech Republic, 2019).

In addition to restrictions, discrimination and bias, which effect a foreign firm's ability to compete with domestic firms or firms from preference countries, can impede FDI inflow into a host-economy. Neither the Czech Republic nor Egypt discriminate in regard to the origin of FDI (ICS Czech Republic, 2019; ICS Egypt, 2019).

Furthermore, in the Czech Republic, "foreign individuals or entities can operate a business under the same conditions as Czechs" (ICS Czech Republic, 2019). Similarly, barring some exceptions, codified policy in Egypt also tends not to discriminate between foreign and domestic entities (ICS Egypt, 2019). However, foreign firms are subjected to more scrutiny, which some firms describe as arduous and arbitrary (ICS Egypt, 2019).

To foster competition, both countries do employ a completion regulator. In Egypt's case, the Egyptian Competition Authority (ECA) is tasked with safeguarding against cartels, abuses of dominance, and vertical restraints; Czech Republic's Office for the Protection of Competition (UOHS) performs a similar operation (ICS Egypt, 2019; ICS Czech Republic, 2019).

Another significant aspect of the legal and regulatory environment is the enforcement of Intellectual Property Rights (IPR). Numerous empirical studies show that increasing "IPR protection promotes both innovation and FDI" (Tanaka & Iwaisako, 2014); which is specifically significant for attracting the quality FDI that both Egypt and the Czech Republic would like to attract.

However, while both countries do have substantial IPR protections, Egypt's enforcement of relevant laws and regulations is viewed as sub-par for investors (ICS Egypt, 2019). In spite of dedicated courts, institutions, and laws governing IPR, Egypt has remained on the United States' Trade Representative's (USTR) Special 301 Report, which enumerates US trading partners that "do not adequately or effectively protect and enforce [IPR]" (USTR, 2019).

Lastly, the legal and regulatory environment of both countries can be captured by the World Bank's "Ease of Doing Business Index" rank—a holistic review of countries covering indicators previously discussed as well as other significant benchmarks. Egypt's rank of 120 to the Czech Republic's rank of 35 (World Bank Doing Business, 2019), reflects many of the differences in determinates discussed thus far. Numerous studies have

established a positive relationship between improvement in Doing Business scores and FDI inflow (Malik & Jyoti, 2018).

The comparison of Egypt and the Czech Republic in this section highlights key differences that may explain the variance in FDI outcomes between the two countries. That is, for Egypt to increase its FDI inflow it ought to decrease its RRI by liberalizing FDI restrictions and increase the enforcement of its existing IPR laws while introducing new protections when possible. Consequently, changes in these policy areas may have a positive effect on Egypt's Ease of Doing Business rank.

3.2.3 Domestic Market and Macroeconomic Stability

Table 3 does not outline specific policy measures that countries can take to increase their domestic market size, and, therefore, there are no substantive independent variables to draw from this specific category.

However, an encompassing analysis of macroeconomic stability captures several controllables that investors are sensitive to. As discussed in chapter two, foreign direct investors are increasingly becoming assured of Egypt's economic stability, but are generally worried about volatile inflation and high unemployment. Meanwhile foreign direct investors are markedly more confident in Czech Republic's economy due to it high GDP growth rates and low unemployment (2.9 percent), but do worry that its "dependence on exports makes economic growth vulnerable to contractions in external demand" (Forbes, 2018).

There is limited ubiquity in an index for economic stability. Instead, the Heritage Foundation's Index of Economic Freedom (IEF) can be used to score a country's macroeconomic environments—though it does not explicitly reflect economic stability. An empirical study of the Middle East and North Africa (MENA) region compared to EU countries—in which both the Czech Republic and Egypt were included—found that "there is a direct relationship between Economic Freedom and the Inward Performance of FDI" for both the MENA countries and select EU countries (Caetano, 2009).

Therefore, Egypt's IEF score of 54.0 compared to the Czech Republic's score of 74.8—a closer score to 100 indicates more economic freedom—is a potentially significant elucidation for the disparity of FDI between the two countries. In this way, it would serve Egypt well to seek out policies that enhance its IEF.

3.2.4 Labor

A majority of FDI ventures are dependent on the available talent and skill of labor in the host-economy. Chapter two outlined several labor challenges that Egypt faces in the status-quo: namely, severely high youth and female unemployment. With respect to would-be employers, "concerns about the quality of the education [in Egypt] contribute to an increasing level of skills mismatch between formal education and the [labor] market" (International Labour Office [ILO], 2017). In terms of FDI, these concerns translate to a possible deterrent according to Figure 1.

Several targeted “Active Labour Market Programmes” (ALMP) have emerged to address these concerns, but have largely remained ineffective due to several systematic challenges:

> These challenges primarily include the lack of a coherent policy and strategic framework, high levels of fragmentation between various public agencies and civil society groups, weak targeting, limited conceptual understanding of the multiple constraints young people face in the [labor] market, limited implementation capacity, lack of appropriate monitoring and evaluation, and a lack of [program] sustainability due to donor dependency, thereby leading to a lack of continuity and limited institutionalization of lessons learned (ILO, 2017).

On the other hand, the challenges facing the labor market of the Czech Republic are similar, but for the opposite reasons. The Czech Republic boasts the lowest unemployment rate and is tied for the lowest labor market insecurity in the OECD (OECD Jobs Strategy, 2018). In fact, the Czech Republic is facing a labor shortage, which should translate to higher wages (OECD Jobs Strategy, 2018). However, wage growth has not manifested in the Czech Republic, and its low-income rate remains the lowest among OECD countries (OECD Jobs Strategy, 2018).

Additionally, like Egypt, the OECD has recommended the need to enhance vocational training in the Czech Republic because “the [labor] market suffers from skills mismatch as the needs of the sizeable manufacturing sector does not correspond to student preferences” (OECD Jobs Strategy, 2018). In practice, however, the labor shortage has forced firms in the Czech Republic to seek less qualified employees and recruit workers from abroad—primarily from Ukraine (Czech Radio, 2019).

In this way, both the Czech Republic and Egypt are generally open to foreign workers as well. In fact, the Czech Republic recorded the highest rate of employment for non-EU citizens (Eurostat as cited in Kafkadesk, 2019). Meanwhile, "the Egyptian Companies Law does not set any limitation on the number of foreigners, neither as shareholders nor as managers or board members" (ICS Egypt, 2019). However, other investment reports indicate that, for staffing in Egypt, "a branch office may not employ more than 10% of its work force as foreigners or pay such foreign employees more than 20% of the total payroll…" (Baker&Mckenzie, 2016).

In this regard, the dissimilarity between Egypt and the Czech Republic does not yield any obvious conclusions for Egypt.

3.2.5 Infrastructure

Infrastructure needs of MNCs are largely specific to firms. Egypt's infrastructure is viewed as relatively developed by investors (Baker&Mckenzie, 2016). With respect to transportation, sufficient roadways, waterways, ports, and airports exist for most investors—with the primary concern being congestion (Baker&Mckenzie, 2016). Several of the mega-projects discussed in chapter two have also aimed at improving Egypt's transportation, logistical, and utility infrastructure.

The Czech Republic, on the other hand, has made great strides at improving its own infrastructure. Ten years ago, the Ministry of Industry and Trade of the Czech Republic noted that the country was severely lagging behind the EU average (Borufka, 2010). Today,

the country claims that the density of its transport networks place the country "among the world's most advanced countries in terms of transport infrastructure" (CzechInvest, 2018).

For a more objective comparison of Egypt and the Czech Republic, the World Bank's Logistics Performance Index (LPI)—a worldwide survey of global freight forwarders and express carriers—can be employed. When ranked against 160 countries, Egypt ranks 67th; markedly lower than the Czech Republic's rank of 22 (World Bank International LPI, 2018). However, this ranking—like all previously discussed rankings—is simply a snapshot of the status-quo and will likely not capture Egypt's most recent improvements to its infrastructure.

3.2.6 Tax Rates

The final criteria that meets the established threshold for importance for investors, is tax rate—although as mentioned in chapter one, it is a less significant determinant. Nonetheless, both the Czech Republic and Egypt have made recent updates to their tax code and collection methods to attract investors, reduce tax evasion, and increase their revenues; for example, the Czech Republic introduced an online tax reporting system to these ends (Forbes, 2018).

In regard to corporate tax rates, Egypt and the Czech Republic are relatively comparable, with the former maintaining a rate of 23 percent and the latter a rate of 19 percent (ICS Egypt, 2019; ICS Czech Republic, 2019). This difference may not be highly significant because "it is not always clear that a tax reduction is required (or is able) to attract FDI" (OECD Policy Brief, 2008).

However, for a myriad of political and economic reasons, investment incentives in the form of tax abatements and other tax programs are used to promote investment. Both Egypt and Czech Republic offer similar codified incentives but may offer more tailored incentives to specific firms. However, "numerous studies on incentives and tax policies in general find that incentives are rarely the main factor in shaping investment location or expansion decisions" (Jensen, 2016).

Therefore, both theoretically and practically tax policy should not be considered an immediate priority for reform. The analysis of the previous subsections have yield policy concerns that can and should be addressed much more immediately to attract FDI.

3.3 Empirical Case Study Two: Portugal

The use of a second country, such as Portugal, for comparison is useful for verification of policy determinates. For instance, if a policy advantage was identified to favor the Czech Republic over Egypt and a similar advantage is discovered for Portugal, then perhaps the policy in question is a significant independent variable. Alternatively, if a policy advantage was identified to favor the Czech Republic over Egypt but there is no advantage (or there is a disadvantage) in terms of policy outcomes, then it may be that independent variable is less significant. The opposite could also be true: an advantage against Egypt exists for Portugal but not the Czech Republic. Assuming this logic, case comparisons similar to those made for Czech Republic can also be made for Portugal.

Table 2 demonstrates that Portugal is reasonably similar to both Egypt and the Czech Republic. Moreover, Portugal shares many of the benefits of EU membership as the Czech Republic, which, as aforementioned, holds variables between the two cases constant.

Directly compared to Egypt, Portugal has a lower nominal GDP, but higher GDP per capita with a population one tenth the size (Index Mundi, n.d.). As seen in Table 2, Portugal was overtaken by the Czech Republic in terms of nominal GDP rank. It is decidedly more successful than Egypt with regards to FDI attraction, but less successful than the Czech Republic. Overall, Portugal has a moderate inflow of FDI when compared globally, but it is remarkable as a country that has made significant improvements in FDI attraction over the last decade (Global Finance, 2018).

As the Portuguese economy has navigated a slow and steady economic recovery in recent years, it may share more analogies with Egypt than the Czech Republic shared. Reforms and more favorable economic conditions since 2014 have contributed to the full economic recovery of Portugal (OECD Economic Survey, 2019). Through this recovery, like Egypt, Portugal was able to decrease its unemployment from over 17 percent to under 7 percent (OECD Economic Survey, 2019).

3.3.1 Political Stability and Security

The same variables derived from Figure 3 for prior comparisons of political stability and security are applicable to Portugal. For convenience, discussion in this section will emphasize similarities and dissimilarities in advantages with context, rather than the

specific outcomes for Portugal: outcomes are summarized below in Table 4 with relation to both Egypt and the Czech Republic.

Like the Czech Republic, Portugal has a considerably better CPI rank than Egypt—and, in fact, has a better 2019 rank than the Czech Republic. A respectable rank of 30 out of 180 was achieved by Portugal to recent regulatory reforms in which the Public Prosecution Office "strengthened the collection and analysis of evidence to improve the effectiveness of anti-corruption investigations and the cooperation with audit and control bodies to improve the detection of graft" (European Commission as citied in OECD Economic Survey, 2019).

Because the Czech Republic and Portugal both hold a distinct advantage in regard to corruption and because perceptions of corruption are known to reduce FDI (OECD Economic Survey, 2019), it is likely that corruption policy is a significant determinant of FDI. This assertion is also supported by Portugal's preferable GII score of 68.9, which is substantially higher than Egypt and marginally higher than the Czech Republic. Therefore, corruption policy should be featured in an overall FDI policy recommendation to Egypt.

Similarly, with respect to investors' concerns of "sudden change in law…" Portugal too has specific preferable procedures, where Egyptian policy is deficient. That is, the Portuguese legal system welcomes FDI (ICS Portugal, 2019). Specifically, all new regulations are subject to a 20 to 30 day public consultation period (ICS Portugal, 2019), akin to procedure in the Czech Republic. Again, the presence of an investor advantage for

both the Czech Republic and Portugal insinuates that a specific policy mechanism for Egypt may exist in regard to investor de-risking.

On the other hand, policies related to currency transfer and conversion need not be addressed because the currencies of all the three countries—Portugal's official currency being the Euro—are perceived by investors to be fully convertible. The same logic is applicable to expropriation: there is limited risk for investors in all three countries.

Finally, barring the risk of political violence, the last investor advantage in terms of political stability and security shared by Portugal and the Czech Republic, but not Egypt, is limited bias towards SOEs. However, Portugal is not as evenly handed as the Czech Republic in this manner. Though both countries are largely in compliance with EU competition laws and the Portugal has laws of its own governing fair completion with SOEs (Law No.133/2013) like the Czech Republic, "SOEs [still] often receive preferential financing terms from private banks" (ICS Portugal, 2019).

Although this bias is not necessarily preferable for a foreign investor, it is likely significantly preferable to the SOE situation in Egypt—discussed in chapter two. Thus, with consideration of the Czech Republic's advantage, SOE regulation may be a significant policy area in which Egypt can improve upon.

In sum, it was stated earlier that to improve FDI inflows Egypt should increase its CPI and GII rank. Portugal's recent reforms to it Public Prosecution Office demonstrates a method to achieve those ends. Additionally, the specification of public consultation period

for legislation is a policy measure that Egypt could reasonably adopt, which could be perceived as a significant de-risking by investors.

3.3.2 Legal and Regulatory Environment

Partially due to their common membership to the EU, there is less policy variance between the Czech Republic and Portugal in regard to the legal and regulatory environment. Thus, many of the relative advantages identified for the Czech Republic will also be true for Portugal. However, even if these sets of policies and outcomes are largely determined by a mutual regulatory environment as result of the EU, their validity as drivers of FDI is not necessarily diminished. In fact, justification for improvement of many of the legal and regulatory indictors was reasoned above—see Misturai & Roulet, 2019; Tanaka & Iwaisako, 2014; and Malik & Jyoti, 2018.

In brief, Portugal, relative to the Czech Republic, shares the same RRI, has a one rank difference in terms of "ease of doing business," and does not discriminate between foreign and domestic firms or by FDI origin (OECD RRI, 2019; ICS Portugal, 2019); the notable advantages in this set being the index scores. Moreover, like both the Czech Republic and Egypt, Portugal employs a completion regulator: Autoridade da Concorrência (ICS Portugal, 2019).

However, the most notable policy recommendation with respect to the legal and regulatory environment, is likely related to IPR. Similar to the discussion above, while all three countries have codified IPR protections, the Czech Republic and Portugal are far better at enforcement: "Portugal is not listed in the [USTR] Special 301 Report, nor is it on

the Notorious Markets List" (ICS Portugal, 2019). The significant difference between the two countries and Egypt may be another plausible determinate that Egypt can influence via policy change.

3.3.3 Domestic Market and Macroeconomic Stability

Again, addressing only the controllable variables investors are most sensitive to, Portugal shares several relative advantages over Egypt with the Czech Republic. For example, Portugal's IEF score of 67.0 is considerably better than Egypt's score (Heritage, 2020), which will likely correlate with greater FDI (Caetano, 2009).

Also, the OECD announcement of a completed recovery of Portugal last year restored confidence in Portugal to some degree (Wise & Hall, 2019). There are likely many lessons for Egypt to learn from Portugal's recovery—analysts are still debating causes of the recovery themselves (Wharton, 2018)—but, additionally, economists' recommendations for contemporary Portugal may translate to Egypt as well—to be further discussed in chapter four.

3.3.4 Labor

With respect to national circumstances regarding labor, Egypt is markedly more similar to Portugal than the Czech Republic. Using data from the same source, Egypt's unemployment rate in 2019 was 11.29 percent, which is roughly what Portugal's unemployment was in 2016—now lowered to 6.13 percent (Statista, 2019). Once again, policy recommendations for Egypt can be derived from both Portugal's recovery as well as its ongoing and future operations; however, contemporary Portugal is far from ideal market for emulation. That is, concerns still remain about Portugal's inflexibility of labor

regulations, low labor productivity, labor market segmentation, and brain-drain (Heritage, 2020; ICS Portugal, 2019).

Nonetheless, Portugal's substantial improvement merits some analysis that may be cross applied to Egypt. For instance, a preliminary assessment of labor market reforms from 2011-2015, parrots recommendations often cited for Egypt: continue to reform employment protection legislation; strengthen ALMPs; intervene to adjust wages (OECD Lisbon, 2017).

Specifically, with reference to ALMPs, Portugal has historically been more successful than Egypt—but, again, Portugal is not exemplary in execution. The efficacy of Portugal's most recalibration to their ALMPs has yet to be fully studied, but guidelines recommend by the EU commission are applicable to Egypt and will be discussed in chapter four.

In any case, "there is a delay between the implementation of ALMPs and their effect on the [labor] market" (European Commission, 2017). Be that as it may, Portugal created 6,100 jobs via FDI in 2018, with one in three international investors highlighting local labor skills and costs as very attractive (EY, 2019).

3.3.5 Infrastructure

Comparative analysis for Portuguese versus Egyptian infrastructure will by and large be near-identical to analysis for the Czech Republic. As mentioned prior, the Czech Republic's LPI rank was 22; whereas, Portugal's is one rank lower (World Bank LPI,

2018). This is a negligible difference when contextualized with infrastructure's relatively low priority in Figure 1.

For context, prior to substantial public investment—which was partially subsidized by the EU—substandard transportation and logistical infrastructure dampened Portugal's economic development and ability to attract FDI (Live and Invest Oversees, n.d.). Today, however, 70 percent of investors find Portugal's infrastructure attractive (EY, 2019). Furthermore, "estimation results suggest that public investment [in infrastructure] crowds in private investment and employment, and has a strong positive effect on output" (Pereira & Andraz, 2005), which may bode well for Egypt if it follows a similar path.

Specifically, the takeaway for Egypt is that their spending on mega-project is worthwhile. However, Egypt should be cognizant of policy measures that facilitate rather than deter the crowding in of private investment—especially, because that private investment could take the form of FDI.

3.3.6 Tax Rates

Multiple tax reforms have made Portugal more attractive for investor's overtime (Obiols, 2018), and investment incentives in innovation and research and development (R&D) have been successful in attracting new FDI (NordeTrade, 2020). However, Portugal's corporate tax rate is only 2 percent lower than Egypt's (ICS Portugal, 2019). Thus, attractiveness stemming from tax policy is likely a function of implementation rather than overall rate.

In any case, it is likely that Portugal's tax environment is not a primary contributor to its FDI attraction. When surveyed, more investors said Portugal's corporation tax is "not at all attractive" than "very attractive"—13 percent versus 8 percent—with a plurality indicating "little attractive" (EY 2019).

This confirms the analysis comparing the tax environment of Egypt and the Czech Republic: that tax reforms and investment promotion is not a necessary determinant of FDI.

3.4 Case Conclusions

As predicted by Figure 1, policy variance in the most sensitive categories for investors—political stability, regulatory environment, domestic market, macroeconomic stability, and labor—likely contribute the most to relative success of FDI attraction. Compared side-by-side in Table 4 below, Egypt's policy deficiencies become clear when compared to the Czech Republic and Portugal.

This chapter demonstrates that index scores and ranks are important to the foreign direct investor, and that even marginal improvements can lead to favorable perceptions of an economy. Emulating the Czech Republic's and Portugal's policies that have empirically improved their rankings and scores—such as allowing for public consultation in the legislative process, increasing firms' abilities to compete with SOEs, enforcing IPR, etc.—can outline a path for Egypt to attract and retain a greater volume of FDI.

The independent variables identified with plausible significance can be translated to policy recommendations in chapter four. These recommendations can be policies the Czech Republic and Portugal empirically undertook to achieve the outcomes discussed in

this chapter, policy improvements recommended to the three countries by analysist, other empirically proven measures, or some permutation of each of these.

Table 4.

Summary of Policies and Outcomes

Country Characteristic	Controllables	Egypt	Czech Republic	Portugal
Political Stability and Security	TI CPI	105	38	30
	SOE Bias	Common	Limited	Limited (Preferential Financing)
	GII Score	34.0	64.2	68.9
	Risk of Political Violence	Decreasing	Low	Low
	Risk of Expropriation	Low	Low	Low
	Legislative Process	Limited Public Consultation	Foreign Entity Participation Allowed	Public Consultation Period
Legal and Regulatory Environment	FDI Restrictions	Land-ownership, Import registry, and Hydrocarbons	Only for National Security	Electricity, Gas Manufacturing, Fuel Pipelines, Social Services, and Recruitment Services
	OECD RRI	.09	.01	.01
	Foreign/Domestic Discrimination	Rare	No Discrimination	No Discrimination
	FDI Origin Bias	No Discrimination	No Discrimination	No Discrimination
	"Ease of Doing Business"	120	35	34
	IPR Enforcement	Weakly Enforced	Fully Enforced	Fully Enforced
	Competition Regulator	ECA	UOHS	Autoridade da Concorrência
	Use of International Accounting Standard	Yes	Yes	Yes
Domestic Market	Targeted Industries for FDI	Various	Manufacturing, technology (R&D), and	Various

		business support centers		
Macroeconomic Stability	Perceived Macro-economic stability	Near Stable	Stable	Stable
	Index of Economic Freedom Score	54.0	74.8	67.0
Labor	Labor Market Program	Inadequate	N/A	Multiple Initiatives
	Local Employment Quotas	Less than 10% Foreign Labor	None	None
Infrastructure	LPI Rank	67	22	23
Tax Rates	Corporate Tax Rate	23%	19%	21%
	Fiscal/Financial Incentives	New Investments	New and Expanding Investments	Productive, R&D, and Job Creation Incentives
Other Investment Promotion	Investment Promotion Agency	Investor Service Center	CzechInvest	AICEP
	FDI Guides Provided by…	The General Authority for Investment and Free Zones	The Ministry of Industry and Trade	The Portuguese Agency for Foreign Investment and Commerce
	Time Required to Start a Business	13 days	25 days	7 days

CHAPTER FOUR: POLICY RECOMMENDATIONS FOR THE ARAB REPUBLIC OF EGYPT

This chapter combines the theoretical research of chapter one, the review of the contemporary Egyptian economy from chapter two, and the empirical case analysis of chapter three to put forth a set of policy recommendations for the Arab Republic of Egypt. The goal of these policy recommendations is three fold: attract, retain, and extract the most benefits from FDI.

As a brief overview, the main lessons from the previous chapters will be outlined, followed by an exploration of FDI opportunities from Egypt's mega-projects, culminating in a set of tailored policy positions and a discussion of their potential implications. The two policy positions provide methods for enhancement of competition and labor, which were identified as critical pull factors in the previous chapters.

4.1 Research Summary

The previous three chapters of this paper determined FDI insights relevant to Egypt. Chapter one established the theoretical basis for FDI decision making by conducting a survey of scholarly research. The literature review of chapter one outlines the principles that are true of FDI in a general sense. That is, the findings in this chapter are considered universal, but an effort was made to identify the factors and conditions that are most relevant to Egypt.

Chapter two extracted insights from statistics and data related to Egypt's macro- and micro-economy. It discussed relevant developments, such as the legacy of the IMF

reforms in Egypt, the countries grapplings with unemployment, and its goals with implementing mega-projects. This chapter is critical to understanding the specific opportunities in Egypt, the potential reasons for depressed FDI in its non-oil sectors, and the implications that increasing FDI could cause in the country.

Finally, chapter three used the empirical cases of the Czech Republic and Portugal to establish practical guidelines for FDI. The independent variables from the comparisons were identified and can be translated to policy recommendations in this chapters.

The table below summarizes the key findings for each chapter. The findings are categorized by their relation to FDI attraction, retention, or optimization—optimization in this context refers to a countries ability to maximize the benefits from FDI. Several of the findings for FDI attraction are applicable to FDI retention, and vice versa.

Table 5.

Summary of Chapters: Key Findings and Lessons for FDI in Egypt

Chapter 1	Chapter 2	Chapter 3
Attraction		
- Firms FDI decisions can be explained by the OLI framework: they need an ownership, location, and internalization advantages (1.2) -Push/Pull factors explain why firms direct FDI towards certain countries (1.3) - Countries mostly control their pull factors to attract FDI (1.3) -Investment incentives are only effective when investors are irresolute between two comparable locations (1.3) - Firms are deterred from FDI by LCRs; high cost of market entry; restrictions; political, legal, and economic risk (1.4)	- The EFF has boosted investor confidence and improved several pull factors (2.1 & 2.2) -FDI attraction is still weak among non-oil private sector and the current business environment will continue to depress non-oil FDI (2.2) -High unemployment may attract FDI interested in labor availability and low wages (2.3) -Investors are interested in participating in mega-project (2.4) -Mega-projects enhance the quality of Egypt's infrastructure which investors are sensitive to (2.4) -FDI is unlikely in sectors in which the military operates or may operate in the future (2.5)	-FDI attraction in Egypt is hindered by low performance with CPI and GII (3.2 & 3.3) -FDI attraction can be depressed when foreign firms perceive unfair competition with SOEs (3.2) -The risk of political violence in Egypt is perceived by investors (3.2) -Reforms that liberalize FDI restrictions significantly increase a country's FDI stock (3.2) -Egypt's appearance on the Special 301 Report for IPR deters investors (3.2) -Investors perceive a mismatch between formal education and the labor market (3.2) -Tax incentives are not effective at attracting investment (3.3) -Egypt can emulate Portugal's improved effectiveness of anti-corruption investigations (3.3)
Retention		
-Investors are sensitive to push/pull factors even after engaging in FDI (1.3) - Firms will consolidate their corporate structure: Internalization Theory (1.4)	-Current MNCs are increasing investment but sums are still modest (2.2) -Investors are threatened by competition with SOEs like the military (2.5)	-Investors are satisfied with Egypt's fully transferable currency and ability to repatriate profits (3.2) -Expropriation is not a significant fear in Egypt (3.2) -Sudden law change poses a risk to foreign investors (3.2) -Foreign firms feel they are subject to more arduous scrutiny than domestic firms (3.2)

Optimization (For Benefits)		
-Benefits from FDI include technology diffusion; human capital formation; international trade integration; increased domestic competition; mobilization of national savings; and improved environmental/social conditions in the host country (1.5) -Potential drawbacks include crowding out of local capital; reduction of capital; excessive completion; deregulation; and repatriation of profits (1.5) -Greenfield investments are the preferable form of FDI to maximize development (1.5) - Local firm managers who worked for MNCs are more successful and more productive than others (1.5) -Spillovers are the most salient benefit from FDI (1.6) -Vertical spillovers (from cherry-picking, productivity shock, and improved performance) are more likely than Horizontal spillovers (1.6) -Spillovers are best in high technology sectors (1.6)	-The confinement of FDI to only four industries decreases Egypt's ability to extract benefits, such as spillover. (2.2)	-Increasing 'Economic Freedom' can enhance the Inward Performance of FDI (3.2) -Egypt's infrastructure improvements bode well with investors, but Egypt should facilitate the crowding in of private sector investment (3.3)

The remainder of this chapter will refer back to the lessons of this table to justify policy measures and recommendations. For convenience, the section in which the conclusions were arrived at, are given in parenthesis.

4.2 Mega-projects as a High-Technology FDI Opportunity

The objectives for FDI policy can be reasoned from Table 5. For example, policy recommendations should be aimed at attracting greenfield investment in high technology sectors over other modes of investment to extract the maximum benefits from FDI, as justified by Table 5. Additionally, all columns under the "attraction" section of the table indicate that enhancement of pull-factors—by de-risking, limiting the identified deterrents, liberalizing restrictions, etc.—are necessary to lure FDI.

Specifically, Egypt's mega-projects—discussed in section 2.4—provide an ideal opportunity to enhance Egypt's FDI attraction, retention, and optimization in the near- and long-term. The mega-projects are ideal because, as previously determined in section 3.3, infrastructure investment usually crowds in private investment, which can take the form of FDI, and, as discussed in section 2.4, investors are already interested in these project because they have been well advertised. Moreover, the mega-projects are associated with high-technology sectors, which are the most likely industries to experience positive spillovers, as determined in section 1.6.

Civil, Architectural, Mechanical, Electrical, Nuclear, and Construction are only some of the engineering sectors required for these mega-projects. Other high-technology sectors required to complete the mega-projects outlined in 2.4 include inter alia, telecommunications, information communication technology (ICT), data-processing, technical consulting, software, cyber-security, computer systems design, research and

development services, industrial manufacturing, survey services (such as geophysicists); MNCs are prevalent in all of the above fields.

It was established that the FDI attraction was a substantial objective of the mega-projects, but that FDI inflows have not increased as expected. Analysis of section 1.3 suggests that this depression of FDI is caused by insufficient pull factors. Therefore, to attract and retain high-technology FDI with respect to on-going and future mega-projects, Egypt should enhance its pull factors by adopting a small set of policy mechanisms and procedures; namely, a policy for competitive neutrality and to enhance labor.

There have been numerous other pull factor deficiencies identified in this paper. However, Egypt and the IMF have recognized shortcomings and have implemented policies—or at least recommended policies—to address those inadequacies, as evident by Table A1. For example, Egypt has recently worked to improve IPR protections as advised by international agencies, but what is needed is enforcement of its existing policies, as evident in section 3.2. Other issues that have been addressed to some degree include corruption perception, transparency, and economic freedom.

However, as seen in Table A1, competition and labor structural benchmarks set forth by the IMF are consistently "not met." Moreover, policy recommendations from the IMF do not address the role of Egypt's military in its economy—which was identified as a critical deterrent of FDI in section 2.5.

4.2.1 Policy for Competitive Neutrality

Although no formal policy measures were recommended or codified, the IMF did warn that military activity would stifle job creation and economic development (Reuters, 2018). The IMF outlined more general structural benchmarks for competition as seen in Table A1, but as previously mentioned, Egypt was not successful in the implementation of these reforms.

The first notable failed reform was requiring Egypt to "publish a report on all state-owned enterprises defined as enterprises where the state has a significant control through full, majority, or significant minority ownership" (IMF Country Report, 2019). These transparency measures would have addressed investor concerns regarding ignorance of the scale of the "military economy": outside observers are unaware of how many industries the military is involved in. As discussed in section 2.5, foreign investors are warry of entering industries that the military is which the military operates or will operate. A public ledger would be a first step Egypt could take towards de-risking for foreign investors.

The second notable failed reform was to "approve executive regulations for the Government Procurement Law to standardize procurement rules… to encourage broad participation by the private sector, with a clear and robust framework for complaint resolution" (IMF Country Report, 2019). Successful implementation in this regard would have addressed foreign investors' concerns about the military's "most favored contractor" status.

In the same vain, the final notable failed reform was the approval of a reform plan by the Prime Minister "to ensure that SOE's procurement rules are consistent with the new Government Procurement law" (IMF Country Report, 2019).

The only IMF structural benchmark for competition that was met was the establishment of an e-Procurement portal. However, its efficacy is stifled by the venerated status of the military.

What needs to occur is

> the…[encouragement of] meaningful administrative and budgetary decentralization and, in the face of inevitable resistance from entrenched officer networks, [making] local government genuinely participatory and responsive to [citizens'] needs as a path to inclusive social development and to economic growth and diversification. (Sayigh, 2019).

In practice, however, the converse is more likely: the GoE will continue to increase the privilege of the military at the expense of social profitability via investments in the mega-projects (Sayigh, 2019). The above policies are realistic to implement and necessary, as evidenced by the competition policies of the Czech Republic and Portugal.

However, Egypt's mega-projects provide another opportunity, not yet discussed, in short- and medium-term. It is plausible that as Egypt awards procurement for future mega-projects, certain projects can exclude the military and other SOEs from consideration—especially in project that require high-technology labor.

This scheme is realistic, because Egypt's public goal of the mega-project was FDI attraction. Blocking SOEs from specific projects would allow for at least some FDI;

namely from investors who signaled that competition with the military was their primary and only deterrent from investment.

Even a small increase in FDI resulting from these measures would be significant because: (a) targeting specific high-technology projects could potentially generate spillover effects; (b) limiting a projects to private enterprises encourages the formation of linkages that are necessary for spillover effects; (c) if these mega-projects are successful in attracting new investment, it is likely that profits from the investment will be re-invested into Egypt's economy (World Bank Group, 2018).

This scheme would be a successful short- and medium-term, but more drastic reforms to procurement procedures would be necessary to generate momentum in FDI attraction—including adoption of the failed IMF structural benchmarks. For fair competition in procurement, Egypt's existing competition regulator could be given oversight responsibilities over the military and/or public procurement procedures (for developments like the mega-projects); however, as evidenced by prior failures, even a 'clerical' reform such as this would require a great deal of political will and is unlikely.

Another substantial, yet undiscussed reform, would be the restoration of VAT on goods, equipment, machinery, services, and raw materials for the military. Even the most competitive firms currently are not able to compete for procurement projects as a result of self-prescribed VAT exemptions by the military. The arrangement, codified in 2016 during the EFF, ought to be abolished or at least amended in an attempt to "level the playing field."

Again, Egypt is unlikely to revoke these privileges on their own. The most likely scenario for these reforms to be considered would be if the IMF made them conditions for a stand-by arrangement.

Thus, the policy conclusion for increasing completion, is the most obvious one: let firms compete. Because the conditions in the status-quo do not and will likely not create the necessary pull factors in the short-term to attract and retain FDI, Egypt can artificially induce that competition by limiting the engagement of the military and clearly defining projects.

4.2.2 Policy to Enhance Labor

Alternatively or additionally, Egypt could seek to address its pull factor deficiencies by addressing investors' concerns over labor. As established in section 2.3 Egypt's high unemployment rate is not necessarily a deterrent for FDI; however, as section 3.2 concludes, investors may be deterred by a perceived mismatch between formal education and the labor market.

Section 3.3 found that when Portugal faced a similar issue, it resorted to ALMPs, which had variable success. Moreover, it was determined, in the same section, that Egypt has not had the same success with ALMPs, their primary challenges being improper targeting, limited institutional capacity, insufficient impact assessments, and inadequate coordination of stakeholders (Amer 2012; Angel-Urdinola et al., 2010; De Gobbi, 2005; Martin & Bardak. 2012; Semlali & Angel-Urdinola 2012, as cited in ILO, 2017).

After assessing shortcomings with current programs, the ILO prescribed a set of policy recommendations in their 2017 report to reform ALMPs in Egypt:

> 1. Reframe the employment promotion narrative from stand-alone measures and classic macro-economic frameworks towards job-rich, pro-employment policies
> 2. Foster a narrative which [emphasizes] investments in young people
> 3. Work towards a common understanding of ALMPs and improve their reputation
> 4. Promote evidence-based programming (ILO, 2017)[3]

The report fully outlines how to realistically implement these reforms in Egypt; however, "many policy makers and implementers lack an understanding of the importance of evaluation for [program] design and improvement" (ILO, 2017), and thus no reforms have been made public thus far.

Although the organization stresses the importance of the programs to address youth unemployment in Egypt, they do not frame ALMPs as a tool for FDI attraction. However, considering Moran's (1998) policy advice—that policies which benefit domestic firms (i.e. investments in education and labor) are the same policies that lead FDI to positively impact development—ALMPs are a tool of FDI optimization in addition to being a tool for attraction.

Egypt's mega-projects provide an ideal opportunity and excuse to implement the ILO's policy recommendations. That is, the GoE and stakeholders could identify the

[3] The full report can be found in Issue 4 of the ILOs Impact Report Series 2017 (ISBN: 9789221313106 web pdf). This report justifies the selection of the four policy recommendations.

industries—preferably the high-technology industries—that are applicable to the mega-projects, and design ALMPs specific to skills required for work in those sectors.

The combination of labor as a pull factor and investors' existing interests in the mega-projects increases Egypt's ability to entice investors in both the short- and long-term. Even if foreign investors do not turnout as a result of ALMPs, domestic firms—and even military industries—will have a greater qualified labor force; which may address some of Egypt's systemic issues with employment.

If foreign firms do turnout, then the potential benefits are compounding. Recall, section 1.5 evidenced that local firms, whose managers worked for MNCs, were more successful and productive than other domestic firms. Other spillover effect via the movement of labor also become plausible under this scheme. The overall implication of ALMPs can be amplified in some ways through FDI, and may result in augmenting the employment rate in Egypt.

In sum, the policy recommendation for labor enhancement echoes the ILOs advice, but applies the context of Egypt's mega-projects. ALMPs focused on the high-technology sectors enumerated at the beginning of this section would be ideal to extract the best benefits from FDI.

CONCLUSION

This thesis used several methods to establish the principles that lead to FDI attraction, retention, and optimization in Egypt. The evidence used to establish these principles justify the policy advice given.

The most significant lessons from the survey of theory in chapter one is that enhancing pull factors are key to lure FDI, that greenfield investments lead to the best development outcomes in countries similar to Egypt, and that FDI in high-technology sectors lead to substantial benefits across the economy. These findings were used validate Egyptian mega-projects as the subject of FDI reform.

Chapter two found that although the goal of the mega-projects was FDI attraction, Egypt failed to generate the investment it expected, due in large part to investor complaints of unfair competition with the military and SOEs. A policy for competitive neutrality was informed by this analysis and developed in chapter four as a result.

Empirical analysis in chapter three revealed a myriad of shortcomings that hinder Egypt's FDI-seeking strategies. As evidenced by the legacy of the EFF reforms imposed by the IMF, Egypt has made strides in several of these areas. One area, identified by limited amelioration, was labor deficiencies. Consequently, chapter four outlined Active Labor Market Programs in high-technology sectors as a potential method of FDI attraction and optimization.

The two policy options presented for competition and labor enhancement, can be mutually exclusive or administered in tandem. These recommendations are not exhaustive by any measure, but they do consider the idiosyncrasies of the Egyptian economy. That is not to say other countries in the region or countries in similar circumstance could not benefit from these policies as well.

At best, these policies have the ability to enhance economic development in Egypt and address its struggles with its micro-economy and unemployment. At worst, the benefits related to FDI do not manifest. Because the scope of this assessment is limited to high-technology FDI related to mega-projects, usual risks to the host-country, such as domestic crowd out, are not especially relevant—especially because it was established the military economy already crowds out domestic firms in the status-quo.

Generally, cost-benefit analysis is in favor of FDI. Future work and study ought to provide greater impact analysis of these policy recommendations.

The significance of this work is related to it topicality. The policy recommendations in this work are the result of nuanced assessments of theory, data, and empirics. The recommendations stated are realistic and achievable by the Government of Egypt.

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APPENDIX A:

Table A1.

Egypt's Prior Actions and Structural Benchmark

Egypt Structural Benchmarks: Fifth Review Under EFF			
Measure	Objective	Timing	Status
The draft 2019/20 budget, consistent with the program understandings, to be approved by Parliament.	Strengthen fiscal sustainability	Prior action	Met
Issue and publish in the official gazette a Prime Ministerial decree to implement fuel price indexation mechanism for all fuel products except gasoline Octane 95 (a decree was already issued in December 2018), LPG and fuel oil used in bakeries and electricity generation.	Eliminate fuel subsidies	Prior action	Met
Increase fuel prices to raise price-to cost ratios to 100 percent. MEFP ¶17	Eliminate fuel subsidies	Prior action	Met
Develop a plan for NIB. The plan will include modalities of: 1. coordination between the MoP, the MoF and the CBE; 2. liquidity and capital provision; 3. information sharing and data monitoring; and 4. one-voice communication.	Strengthen public finances and contain risks to the financial sector	Prior action	Met
CBE will not grant exemptions for commercial banks to breach net FX open position limits and apply sanctions to any banks that violate the limits, in accordance with the regulations. MEFP ¶20	Safeguard financial stability	Continuous structural benchmark	Met
Separate the regulatory authority for public transportation from the Ministry of Transportation by establishing the independent regulatory authority for transport. MEFP ¶25	Improve competition	March 31, 2019	Not met
A committee comprising representatives of the ministries of Planning, Monitoring and Administrate Reform and Finance, and the CBE will review NIB's operations and finances, and develop a plan, approved by the Prime Minister, with the revised mandate, the business model and the proposed financial structure of the entity going forward. MEFP ¶15	Strengthen public finances and contain risks to the financial sector	March 31, 2019	Not met. Pending assessment by international auditor.

Approve by Ministerial decree and publish new guidelines for industrial land allocation. The guidelines to include the following components: a) permissible use of land by investors for any industrial purposes with limited restrictions; b) market-based land allocation mechanisms that ensure open, transparent and competitive bidding process; c) clear eligibility criteria for bidders; d) simplified and standardized document requirements; and e) establishing an online platform and moving the entire process online, including all industrial land tender announcements, document and bidding submissions, and reporting auction results. MEFP ¶25	Improve access to land	March 31, 2019	Not met. Implemented by endMarch but not all industrial land will be allocated through price auctions
Approve executive regulations for the Government Procurement Law to standardize procurement rules, procedures and document requirements to encourage broad participation by the private sector, with a clear and robust framework for complaint resolution. The procurement regulations to be applied consistently and uniformly to all government entities, including central and local authorities and economic authorities. MEFP ¶25	Strengthen competition, optimize public spending and reduce corruption	May 31, 2019	Not met. To be issued by Minister of Finance in the coming weeks after the State Council legal review.
The e-Procurement portal will start operating. MEFP ¶25	Strengthen competition, optimize public spending and reduce corruption	May 31, 2019	Met
Issue and publish in the official gazette a Prime Ministerial decree to implement fuel price indexation mechanism for all fuel products except gasoline Octane 95 (a decree was already issued in December 2018), LPG and fuel oil used in bakeries and electricity generation.	Eliminate fuel subsidies	June 5, 2019	Not met. Implemented with delay on July 6, 2019
Increase fuel prices to raise price-tocost ratios to 100 percent. MEFP ¶17	Eliminate fuel subsidies	June 15, 2019	Not met. Implemented with delay on July 5, 2019
CBE FX deposits at foreign branches of the Egyptian banks eliminated. MEFP ¶8	Improve foreign exchange reserve management	June 15, 2019	Met
Bring to market shares in at least four SOEs. MEFP ¶25	Develop capital markets and reduce the role of the state	June 15, 2019	Not met. Expected by end 2019

The Prime Minister to approve a reform plan to ensure that SOE's procurement rules are consistent with the new Government Procurement law. MEFP ¶25		June 15, 2019	Not met. Implemented with delay in early July 2019
1/ The references to the MEFP reflect the MEFP from the fourth review.			

Note: Retrieved from IMF, "Fifth Review Under the Extended Arrangement Under the Extended Fund Facility," (2019)